

## An Introduction to Environmental, Social and Governance Investing

ESG investing is a form of sustainable or socially-responsible investing that integrates Environmental, Social and Governance factors into the fundamental investment process and considers their impact along with more traditional financial variables. Environmental factors determine a company’s stewardship of the environment and focus on waste and pollution, resource depletion, greenhouse gas emissions, deforestation, and climate change. Social factors look at how a company treats its stake-holders and focuses on employee relations and diversity, working conditions, local communities, and health and safety. Governance factors consider corporate policies around tax strategy, executive remuneration, corruption and bribery, and board diversity and structure.

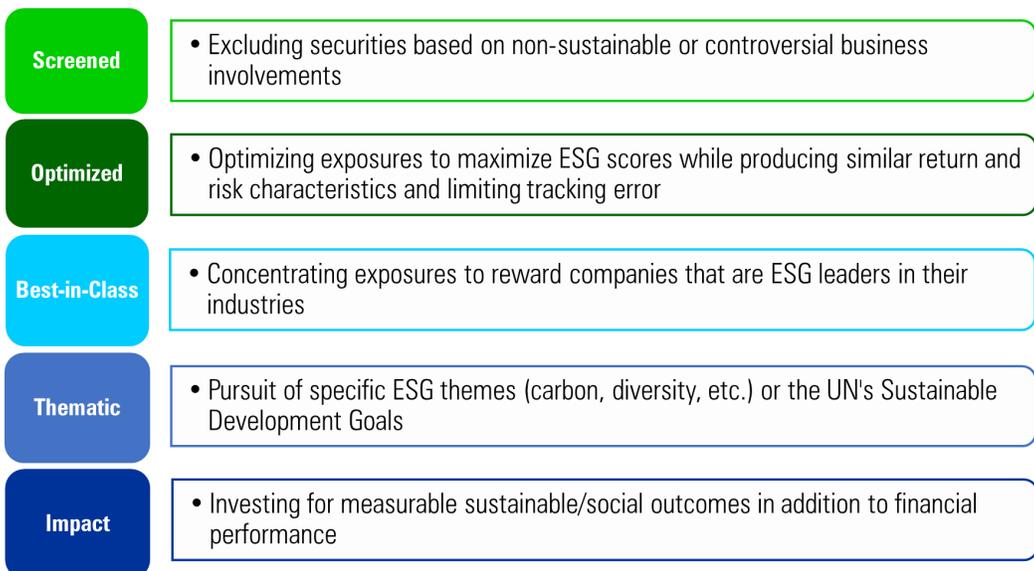
ESG investing has enjoyed significant growth that is forecast to continue. According to Morningstar, the universe of sustainable funds in the U.S. experienced inflows of \$21 billion in the first quarter of 2021, and the category is on track to exceed last year’s record annual growth of \$51 billion. As such, once a fringe investment strategy that incorporated blunt exclusionary tactics which often led to inferior performance, ESG investing has become a mainstream approach to achieve a more socially responsible and sustainable investment portfolio. Because ESG adoption has generally resulted in neutral to improved investment performance with demonstrated financial and social benefits, we believe that integration will further evolve towards an investment standard or “must do” over time. Our conviction in the future of ESG and its benefits to investors, companies, and society at large led Blue Edge to launch a family of ESG portfolios three years ago and to layer in additional offerings this summer. We have been very pleased with the results thus far and are eager to share our knowledge with those who want to learn more.



## The Growth and Evolution of ESG Investing

We believe that one of the key developments supporting ESG’s growth has been the evolution of integration methods and the expansion of sustainable products offered. Investing with social or environmental consciousness used to require significant scale or be a one-size-fits-all proposition due to limited availability of sustainable investment strategies; however, there are now multiple approaches and investment products targeting many points along the investing spectrum. Investors can now choose from a variety of ESG integration strategies that offer a range of considerations for investors to consider and prioritize. These strategies include screening controversial businesses, improving ESG scores while minimizing tracking error, rewarding ESG leaders, pursuing specific ESG themes, and delivering measurable impact.

**ESG Integration Options**



Along the same lines, the growth and proliferation of sustainable passive funds (index mutual funds and ETFs) has democratized access to ESG strategies by offering cost-effective solutions for smaller investors. According to Morningstar data, the number of sustainable exchange-traded funds has grown from 24 in 2015 to 111 at the end of 2020, including a 40% increase during 2020. While sector-specific funds used to dominate the sustainable ETF landscape, diversified funds have accounted for most of the recent growth. Since 2015, the assets managed in U.S. sustainable ETFs have grown at an annualized rate of 79%, or four times the 21% equivalent growth rate of the overall ETF market during that period. Morningstar reports that during the first quarter of 2021, passive mutual funds and ETFs claimed 70% of all U.S. sustainable asset flows. Given their current trajectory, we believe that assets in sustainable passive vehicles will exceed \$1.0 trillion by the end of the decade.

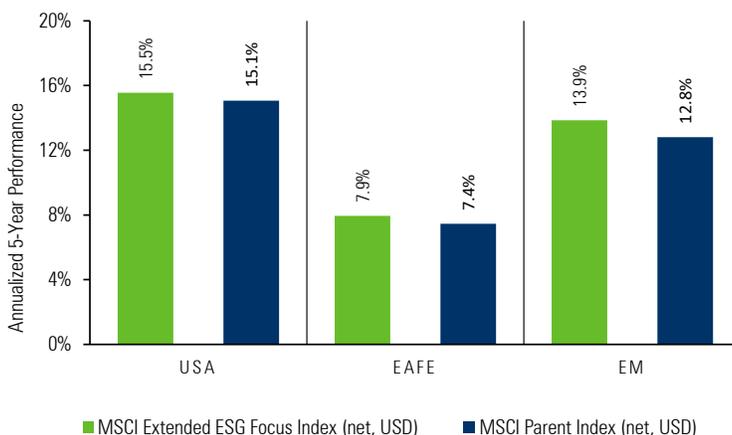
In addition to significantly enhanced options and access, recognition that sustainability filters can actually improve performance and risk attributes has reinforced investor demand and converted those who did not want to sacrifice return in order to achieve sustainable objectives. Increased data and quantitative analysis have enabled fund sponsors and index providers to fine tune their offerings in a manner that allows investors to have their cake and eat it too.

**U.S. SUSTAINABLE PASSIVE FUNDS ASSET GROWTH**



Source: Blackrock and Morningstar as of 3/31/2021. <sup>1</sup> Compound Annual Growth Rates.

**MSCI Extended ESG Focus Indices vs. Parent Indices<sup>1</sup>**



Source: MSCI. Data through 12/31/2020. <sup>1</sup> Parent Indices refer to non-ESG filtered regional indices of MSCI.

# Opportunities to Implement an ESG Strategy with Blue Edge Capital

Recognizing the growing desire of many individual and institutional investors to invest in a more socially conscious and sustainable fashion, Blue Edge Capital developed a partial suite of ESG portfolios in July 2018. We designed our ESG portfolios around our core investment philosophies and employ a similar approach to asset allocation and ETF selection as our other portfolios. We worked closely with thought leaders in the ESG space to develop portfolios that minimize tracking error and seek to achieve comparable performance versus traditional indices in their pursuit of superior ratings along ESG metrics.

Over the past year, we've seen increased interest in these portfolios, which now have a compelling three-year track record. While individual investors were early adopters of these strategies, several of our non-profit clients deployed capital into our ESG portfolios in June 2021, and we expect to see continued growth in institutional appetite for these solutions in the future. We continue to refine portfolio construction and adjust exposures as new ESG ETFs come to market. On July 1<sup>st</sup>, we launched two new ESG portfolios to round out the risk spectrum to include portfolios that track our growth and growth and income objectives. The BEC ESG Growth Portfolio has an 80% strategic target to global equities and 20% strategic target to fixed income, while the BEC ESG Growth and Income Portfolio targets 50% exposure to both global equities and fixed income. These new portfolios use the same ETFs that the ESG Balanced Portfolio incorporates but with differing asset class and position weights.

BEC Portfolio (4)/(6)	Inception Date	Current/Target Exposures				Annual Performance			Current Year (as of 6/30/21)			Annualized Performance (as of 6/30/21)			
		US Eq	Int'l Eq	Fixed	Cash	2018	2019	2020	Month	QTD	YTD	1-year	3-year	5-year	Inception
<b>BEC ESG Portfolios</b>															
<b>Equity</b>	<b>6/30/2018</b>	<b>75.0%</b>	<b>24.4%</b>	<b>0.0%</b>	<b>0.6%</b>	<b>(8.9%)*</b>	<b>29.8%</b>	<b>18.5%</b>	<b>1.7%</b>	<b>6.9%</b>	<b>13.7%</b>	<b>42.3%</b>	<b>16.8%</b>	<b>--</b>	<b>16.8%</b>
<i>Benchmark</i>		<i>70.0%</i>	<i>30.0%</i>	<i>0.0%</i>	<i>0.0%</i>	<i>(8.9%)*</i>	<i>28.1%</i>	<i>17.8%</i>	<i>1.5%</i>	<i>7.4%</i>	<i>13.3%</i>	<i>41.6%</i>	<i>15.9%</i>	<i>--</i>	<i>15.9%</i>
<b>Growth</b>	<b>6/30/2021</b>	<b>64.9%</b>	<b>21.1%</b>	<b>13.3%</b>	<b>0.7%</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>
<i>Benchmark</i>		<i>56.0%</i>	<i>24.0%</i>	<i>20.0%</i>	<i>0.0%</i>	<i>--</i>	<i>--</i>	<i>--</i>	<i>--</i>	<i>--</i>	<i>--</i>	<i>--</i>	<i>--</i>	<i>--</i>	<i>--</i>
<b>Balanced</b>	<b>6/30/2018</b>	<b>57.9%</b>	<b>18.1%</b>	<b>23.4%</b>	<b>0.6%</b>	<b>(6.4%)*</b>	<b>22.0%</b>	<b>15.1%</b>	<b>1.4%</b>	<b>5.6%</b>	<b>10.4%</b>	<b>30.3%</b>	<b>13.2%</b>	<b>--</b>	<b>13.2%</b>
<i>Benchmark</i>		<i>50.0%</i>	<i>20.0%</i>	<i>30.0%</i>	<i>0.0%</i>	<i>(5.7%)*</i>	<i>22.3%</i>	<i>15.5%</i>	<i>1.3%</i>	<i>5.8%</i>	<i>8.7%</i>	<i>27.9%</i>	<i>13.2%</i>	<i>--</i>	<i>13.2%</i>
<b>Growth &amp; Income</b>	<b>6/30/2021</b>	<b>44.8%</b>	<b>13.4%</b>	<b>41.1%</b>	<b>0.7%</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>
<i>Benchmark</i>		<i>35.0%</i>	<i>15.0%</i>	<i>50.0%</i>	<i>0.0%</i>	<i>--</i>	<i>--</i>	<i>--</i>	<i>--</i>	<i>--</i>	<i>--</i>	<i>--</i>	<i>--</i>	<i>--</i>	<i>--</i>

\*Partial Period Return

Please reach out to learn more about our ESG offerings and discuss how they can enhance your investment portfolio.

M. Bagley Reid  
 Peter H. Bowles  
 Margaret P. Fretz  
 Meredith DeGuenther  
 Macon H. Clarkson

804-673-7402  
 804-673-7404  
 804-673-7405  
 804-673-7406  
 804-673-7403

[broid@blueedgecap.com](mailto:broid@blueedgecap.com)  
[pbowles@blueedgecap.com](mailto:pbowles@blueedgecap.com)  
[mfretz@blueedgecap.com](mailto:mfretz@blueedgecap.com)  
[mdeguenther@blueedgecap.com](mailto:mdeguenther@blueedgecap.com)  
[mclarkson@blueedgecap.com](mailto:mclarkson@blueedgecap.com)

# Important Disclosures

(1) Blue Edge Capital, LLC (BEC) is an independent investment management firm, registered under the Investment Advisers Act of 1940, serving private investors, family offices, foundations, and institutional investors. BEC employees own 100% of the firm.

(2) Investing in BEC Portfolios involves risks, including the potential for loss of capital. BEC's investment strategies are focused on investment in exchange traded funds (ETFs) that hold domestic and international equities, fixed income, real estate, commodities, precious metals, currencies, cash, and other instruments. BEC's investment strategy includes making tactical asset allocation decisions among asset classes with the goals of improving investment performance and managing risk through the economic cycle. Asset classes and proportional weighting in the BEC Portfolios may change at any time without notification based on the discretion of the BEC Investment Committee, which is responsible for all tactical asset allocation decisions for BEC's investment Portfolios.

(3) The returns generated by the BEC Portfolios are subject to numerous risks, including economic, social, and political uncertainty, market volatility, foreign currency exchange rate volatility, and tracking error versus an underlying index. ETFs that hold fixed income securities are also subject to default risk and interest rate risk of their underlying holdings. Investments in ETFs that own foreign assets may incur greater risks than domestic investments. The actual return performance of any ETF may deviate from the returns of the underlying index it is intended to replicate. There can be no assurance that the investment objectives of any Portfolio managed by BEC will be achieved. A complete list of returns for all BEC ETF holdings is available upon request.

(4) BEC began formally tracking the performance of its Global Portfolios as of January 1, 2011, its Traditional Portfolios as of January 1, 2017, and its ESG Portfolios as of July 1, 2018 (Equity and Balanced) and July 1, 2021 (Growth and Growth & Income). Portfolio composite returns for each portfolio are presented on a time-weighted, size-weighted total return basis using monthly portfolio valuations. The composite returns for each Portfolio presented herein include all eligible BEC accounts. To be eligible for inclusion in the BEC composite, an account must be fee paying, fully discretionary, and not part of a broker wrap program. All returns are expressed in U.S. Dollars and are presented net of all fees and expenses, including the fees of the underlying ETF sponsors. The returns reflect the reinvestment of all dividends and interest. As a result of technological enhancements to our performance reporting system, BEC began accruing dividends as of September 1, 2018, and accrued dividends are included in our portfolio composite performance as of that date. The return information presented herein is preliminary and has not been audited or otherwise verified by an independent accounting firm, and past performance of any BEC portfolio does not guarantee future results. For the initial launch date of the ESG portfolios (June 30, 2018), we used NAV pricing for the following ESG Portfolio holdings (tickers ESGU, JUST, ESML, ESGD, ESGE, and SUSB) to provide more accurate performance measurement.

(5) The data for portfolio turnover, current portfolio positioning, and return performance of individual asset classes within each BEC portfolio are based on a representative composite account that remained invested since inception. Asset class returns are presented net of the underlying ETF fees and all trading costs but before any BEC management fee, which is deducted from accumulated cash in the portfolio. The asset class benchmark for BEC global fixed income is a blended benchmark comprised of 80% Bloomberg U.S. Aggregate Bond Index and 20% Bloomberg Global Aggregate Bond Index (ex-U.S.), rebalanced monthly.

(6) The performance of each BEC Portfolio is tracked against one or more performance benchmarks, which have been selected as reasonable proxies for the investment strategy of that portfolio and which are provided for informational purposes only. These benchmarks are rebalanced on a monthly basis, and the actual tactical asset allocation of any BEC portfolio may differ significantly from the composition of its respective benchmark indices at any given time. These benchmarks, which are summarized in the following data table, are not directly investable and do not reflect the deduction of any investment management fee or transaction costs.

	<b>Benchmark Component Weighting</b>		
	<b>Russell</b>	<b>MSCI</b>	<b>Bloomberg</b>
	<b>3000</b>	<b>ACWI</b>	<b>U.S.</b>
	<b>(xUS)</b>	<b>Aggr. Bond</b>	
<b>ESG Benchmarks</b>			
ESG Equity	70.0%	30.0%	--
ESG Growth	56.0%	24.0%	20.0%
ESG Balanced	50.0%	20.0%	30.0%
ESG Growth & Income	35.0%	15.0%	50.0%

(7) BEC charges an annual investment management fee on all managed accounts, and the firm's standard fee schedule is as follows: 0.75% on the first \$5,000,000 of assets, 0.65% on the next \$5,000,000, and 0.50% on assets over \$10,000,000. Fees and minimums are negotiable, and some clients may pay less than the standard fee.

(8) The opinions expressed herein are current opinions as of the date appearing on this material only. Unless otherwise note, all portfolio holdings are as of June 30, 2021.

(9) This report is neither an offer to sell nor a solicitation of an offer to buy any securities. Blue Edge Capital, LLC's most recent Form ADV I, II, and III are available upon request to BEC or directly at the SEC website [www.sec.gov](http://www.sec.gov).