



## CASE STUDY

# PARTNERING FOR A GREENER PORTFOLIO

## OVERVIEW

United Church Funds, a values-aligned investment manager for faith-based organizations, partnered with PGIM Quant to transition from an exclusionary Global ACWI IMI enhanced index mandate to a customized solution providing a 50% carbon emissions intensity reduction and 20% improvement of ESG metrics over its benchmark index, while maintaining alpha and risk targets.

## KEY PARTNERS

- United Church Funds (UCF) investment team overseeing the Beyond Fossil Fuels (BFF) Fund
- UCF Director of Responsible Investing
- UCF Investment Committee
- PGIM Quant client service team
- PGIM Quant investment & trading teams

## CHALLENGE

UCF sought to enhance its existing global equity portfolio through a reduction of carbon emissions intensity. The goal was to extend the mandate of the long-term strategic partnership between UCF and PGIM Quant and to expand beyond the exclusionary investment list provided by UCF. PGIM Quant proposed a customized portfolio overlay solution that would fulfill UCF's carbon emissions reduction goals, while also meeting risk and return targets. The overlay needed to be implemented gradually so that portfolio rebalancing minimized transaction costs.

## APPROACH

The original BFF Fund mandate screened out investments in corporations that produce or explore for fossil fuels through an exclusionary investment list provided by UCF. The list contained companies primarily concentrated in the Energy sector. PGIM Quant's proprietary research demonstrated that many of the biggest carbon emitters reside outside of the Energy sector - in the Utilities, Materials, and Industrials sectors. Taking into consideration UCF's climate justice goals, PGIM Quant proposed a multifaceted approach utilizing proprietary ESG screens to implement a custom portfolio overlay solution that would fulfill BFF's explicit carbon emissions reduction goals while also meeting risk and return targets. The overlay framework sought to capture the actual carbon emissions footprint of companies and simultaneously evaluate companies from an overall ESG perspective.

## SOLUTION

While the initial mandate centered on a list of companies to be excluded, PGIM Quant proposed a transparent, customized solution that maintained BFF's existing risk and return targets and added our deep sustainability capabilities as an overlay. The results:

- Reduced total portfolio carbon emission by more than 50% relative to the benchmark by employing a carbon emission intensity for every stock in the universe.
- Maintained UCF's exclusions list and improved the overall ESG profile by 20%, with improvement of 20% for E, 10% for S, and 5% for G metrics.
- Incorporated explicit ESG targets as part of our optimization that led to direct, quantifiable ESG improvement relative to the benchmark over time and can be demonstrated in reporting as needed.
- Produced a well-diversified portfolio with constraints to prevent overexposure to any country or sector.
- Avoided the worst ESG offenders in the benchmark.
- Maintained the existing fiduciary targets for risk and return established for the BFF Fund.

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