

GABELLI
FUNDS

21st Century Capitalism: Why ESG Matters

July 14, 2019

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ESG & Sustainable Investments

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ESG

Environmental

Social

Governance

30+ Year Commitment to Responsible Investing

1976

Firm founded

1987

Initial SRI mandate

2007

Gabelli SRI mutual fund launches

2016

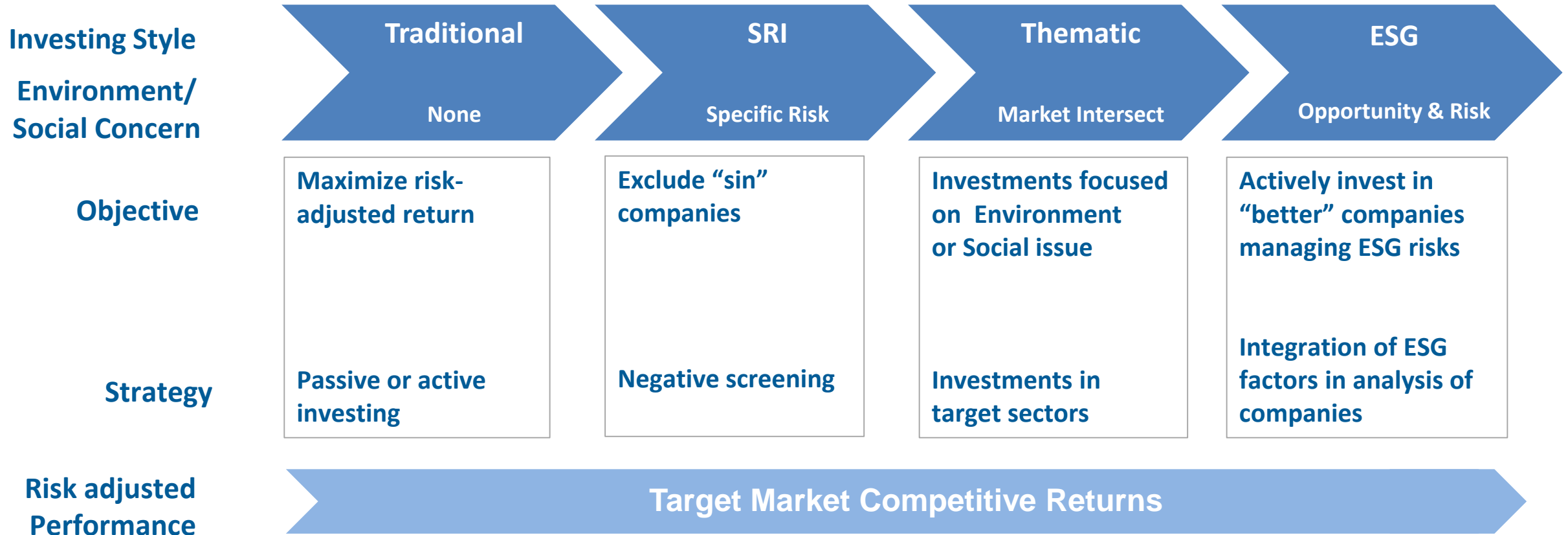
Expand ESG Integration; PRI signatory

1988

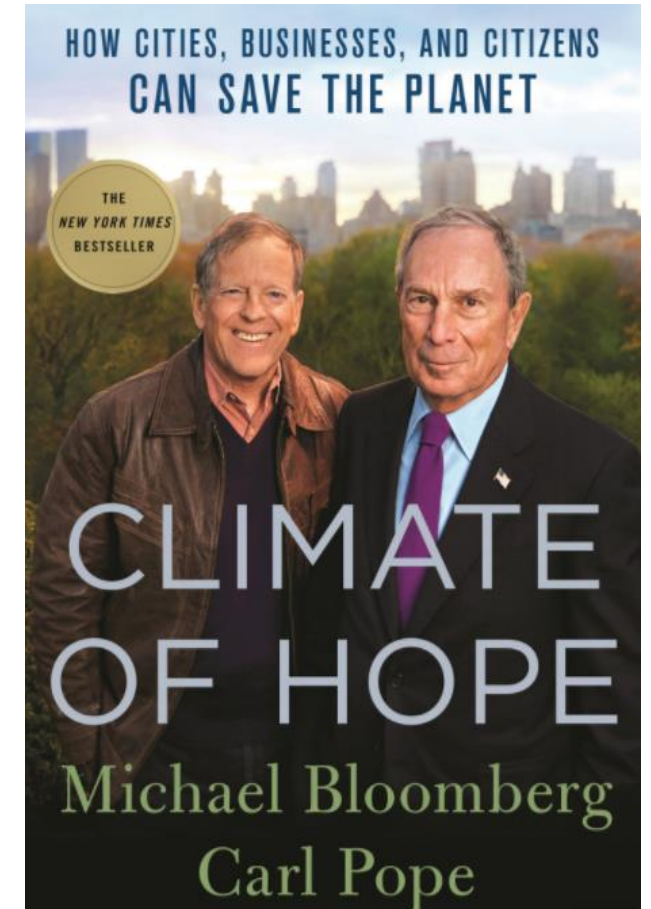
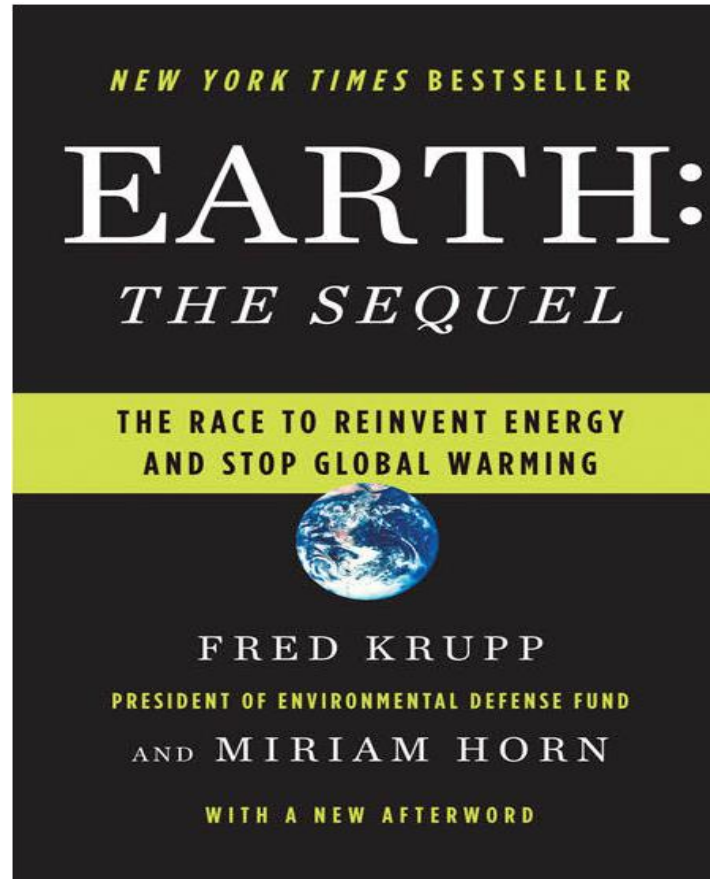
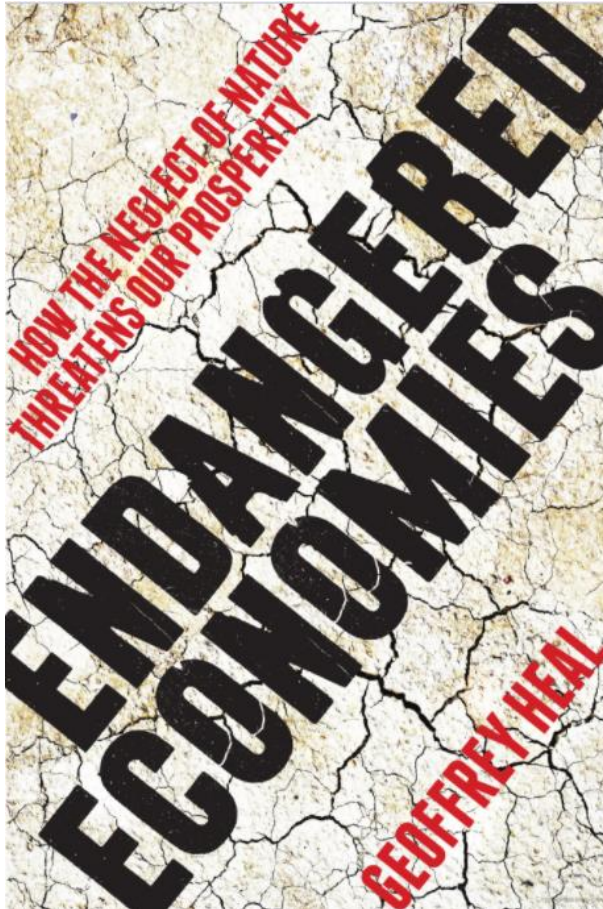
Magna Carta on Governance



Responsible Investing



Our Global Challenge







Top Global Risks by Likelihood

1. **Extreme weather events (floods, storms)**
2. **Failure of climate change mitigation & adaptation**
3. Major natural disasters (earthquake, tsunami, etc.)
4. Massive incident of data fraud/theft
5. Large scale cyberattacks
6. **Man-made environmental damage and disasters (oil spills, radioactive contamination)**
7. Large scale involuntary migration
8. **Major biodiversity loss and ecosystem collapse (terrestrial or marine)**
9. **Water crises**
10. Asset bubble in a major economy

Source: World Economic Forum Global Risks Report 2019

Sustainability Matters

	Long Term Risk	ESG related	Investment related
	Water Crises	<ul style="list-style-type: none"> • Water Quality • Water Scarcity • Water Management 	<ul style="list-style-type: none"> • Cost increases • Manufacturing disruption • Agriculture/ commodity Impact
	Climate Change	<ul style="list-style-type: none"> • GHG emissions • Energy efficiency & Mgmt • Waste Management 	<ul style="list-style-type: none"> • Cost increases • Increasing regulation • Slower growth
	Food Crises	<ul style="list-style-type: none"> • Food supply chain quality • Water scarcity • Farming Security 	<ul style="list-style-type: none"> • Commodity price volatility • Global instability • Changing consumer patterns
	Social Instability	<ul style="list-style-type: none"> • Income inequality, Diversity • Labor Practices, Development • Employee Health & Safety • Consumer Safety 	<ul style="list-style-type: none"> • Slower growth • Increasing regulation • Political instability

ESG Factors

Environmental	Social	Governance
<ul style="list-style-type: none">• Climate change• Biodiversity• Carbon footprint• Waste Management• Water Scarcity• Land use• Air & Water pollution	<ul style="list-style-type: none">• Human rights• Product safety• Diversity• Labor standards• Community relations• Employee Health & Safety	<ul style="list-style-type: none">• Board independence• Board diversity• Corruption or Bribery• Transparency• Supply Chain• Political lobbying
		

Sustainable Theme

Example: Looming Water Crisis



**Animas River,
Colorado**

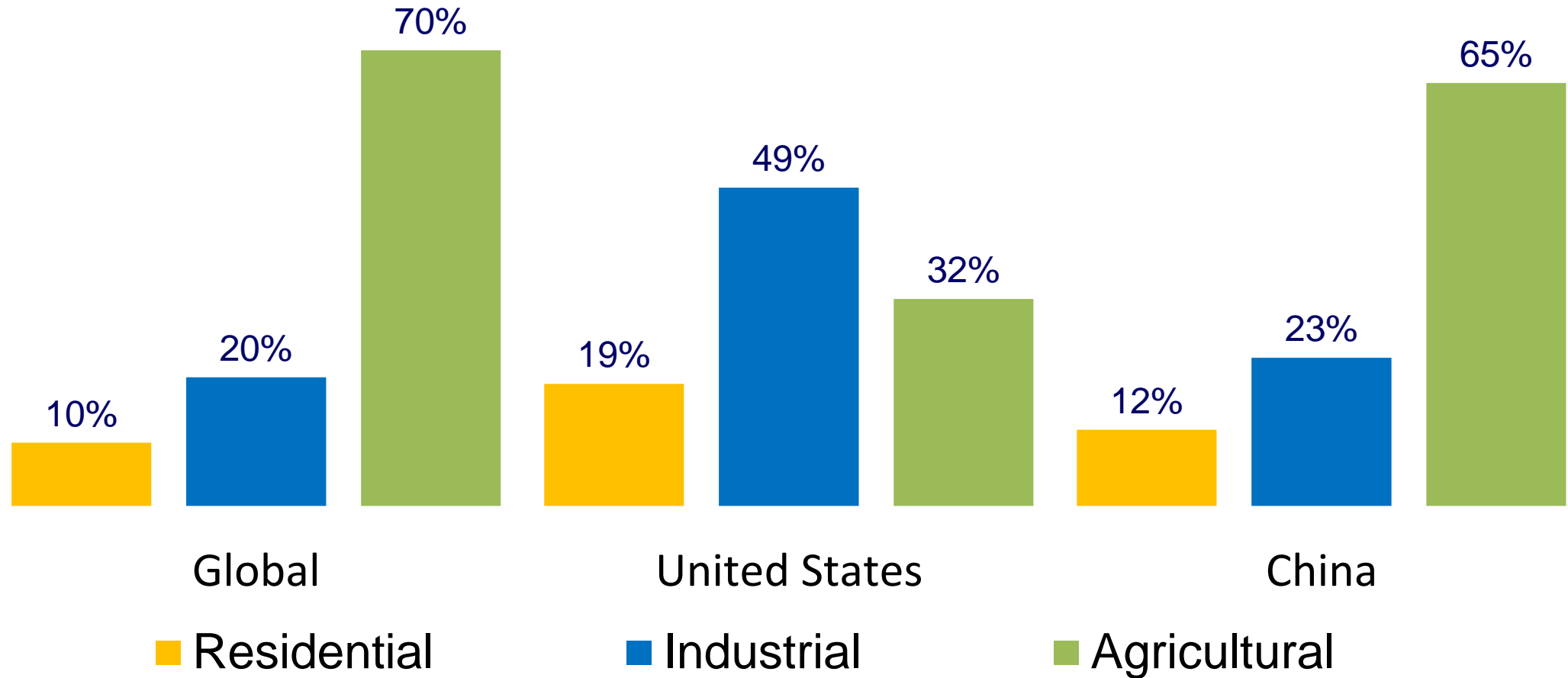


California Drought



**Flint
Michigan
Crises**

Fresh Water Usage



Source: US Geological Survey, Worldwater.org

Water

Supply is Stressed

- Fresh Water Supply - Relatively Flat
- Demand = 2x Population Growth
- Demand > Supply by 40% in 2030^(a)
- 2 Bn to Face “Water Stress” by 2050^(b)

^(a) 2030 Water Resources Corp

^(b) UN Report

Water

Growing Global Market

- \$500bn +
 - Mid-single Digit Growth
- Utilities Spend \$190bn
- \$80bn Services
 - \$40bn Pipes
 - \$30bn Pumps/Valves
 - \$40bn Other Equipment

Source: US Geological Survey, Worldwater.org

Water

Key Growth Drivers

- Population Growth & Urban Migration
- Very Old Infrastructure – Sanitation & Distribution
- Increased Regulation – Pollution & Availability
- Global Warming Contributing to Imbalances
- Economic Growth
 - US 49% Manufacturing, World 70% Agricultural

Source: US Geological Survey, Worldwater.org

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November 17, 2011

Gabelli & Company, Inc.

*“Global Water Industry
growing 3-5%
annually”*

*“Long term secular
trends will drive
water demand beyond
supply.”*

WATER:

The Wave of Future Investment Opportunities



Source: photosqf.org

Companies Mentioned

Pumps / Valves			Testing / Filtration		
Flowserve	(FLS - \$	97.96 - NYSE)	Danaher	(DHR - \$	48.23 - NYSE)
Franklin Electric	(FELE -	47.35 - NASDAQ)	Layne Christensen	(LAYN -	23.33 - NASDAQ)
General Electric	(GE -	15.95 - NYSE)	Pall	(PLL -	2.15 - NYSE)
Sulzer	(SUN - Sfr.	101.30 - ZURICH)	Thermo-Fischer	(TMO -	48.41 - ")
Tyco	(TYC - \$	46.99 - NYSE)	Waters	(WAT -	78.66 - ")
Xylem	(XYL -	24.12 - ")			
Meters / Pipes			Irrigation / Desal		
Badger Meter	(BMI - \$	31.63 - NYSE)	Energy Recovery	(ERII - \$	2.50 - NASDAQ)
Elster	(ELT -	13.60 - ")	Flowserve	(FLS -	97.96 - NYSE)
Itron	(ITRI -	36.75 - NASDAQ)	Lindsay	(LNN -	58.70 - ")
Mueller Water	(MWA -	2.15 - NYSE)	Valmont	(VMV -	82.93 - ")
Roper	(ROP -	84.90 - ")			

Anix Vyas, CFA
914-921-7729

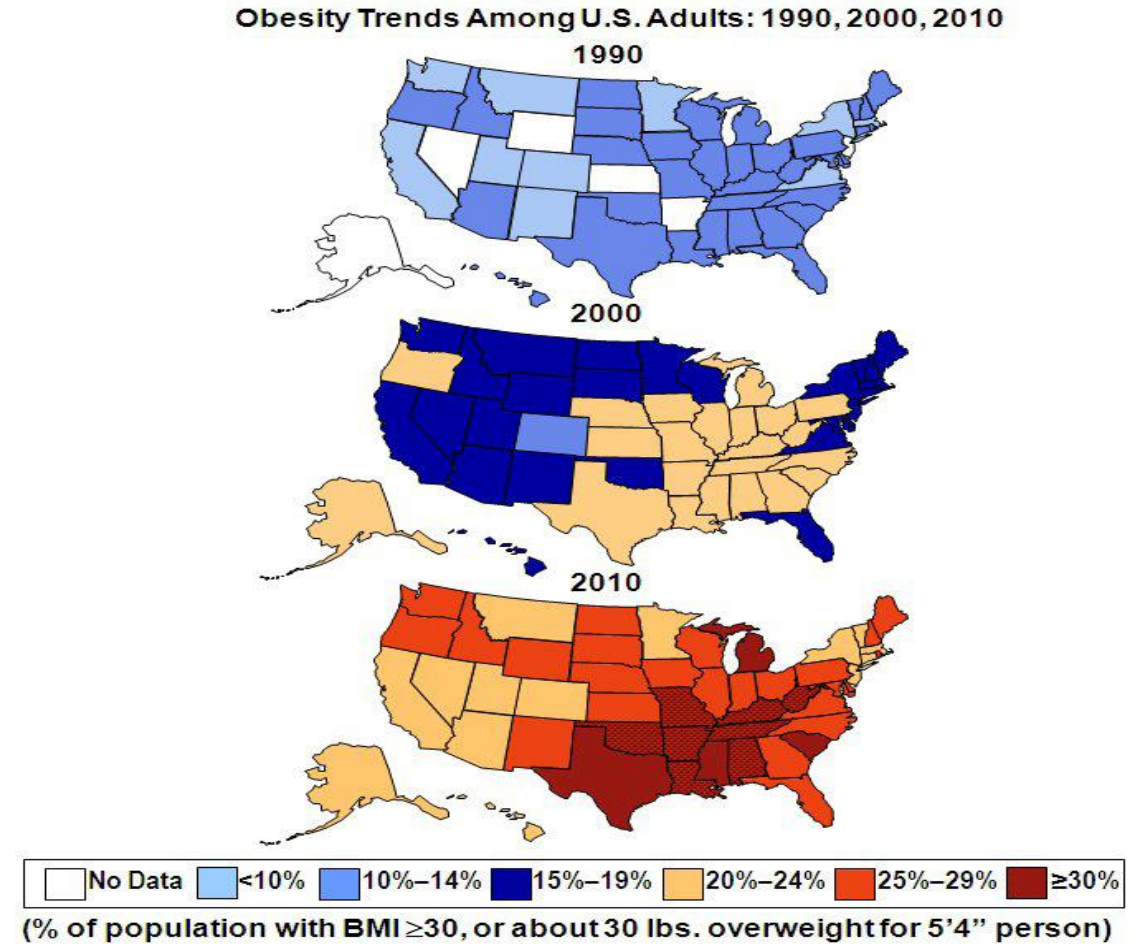
-Please Refer to Important Disclosures on the Last Page of this Report-

*“Fragmented industry presents
compelling investment
opportunities.”*

*“Focus on
companies
operating in
equipment and
services segments.”*

Health & Wellness

- In 1990 **ZERO** States had >20% Obesity Rate
- In 2010 **ALL** States had >20% Obesity Rate



Source: CDC (Behavioral Risk Factor Surveillance System)

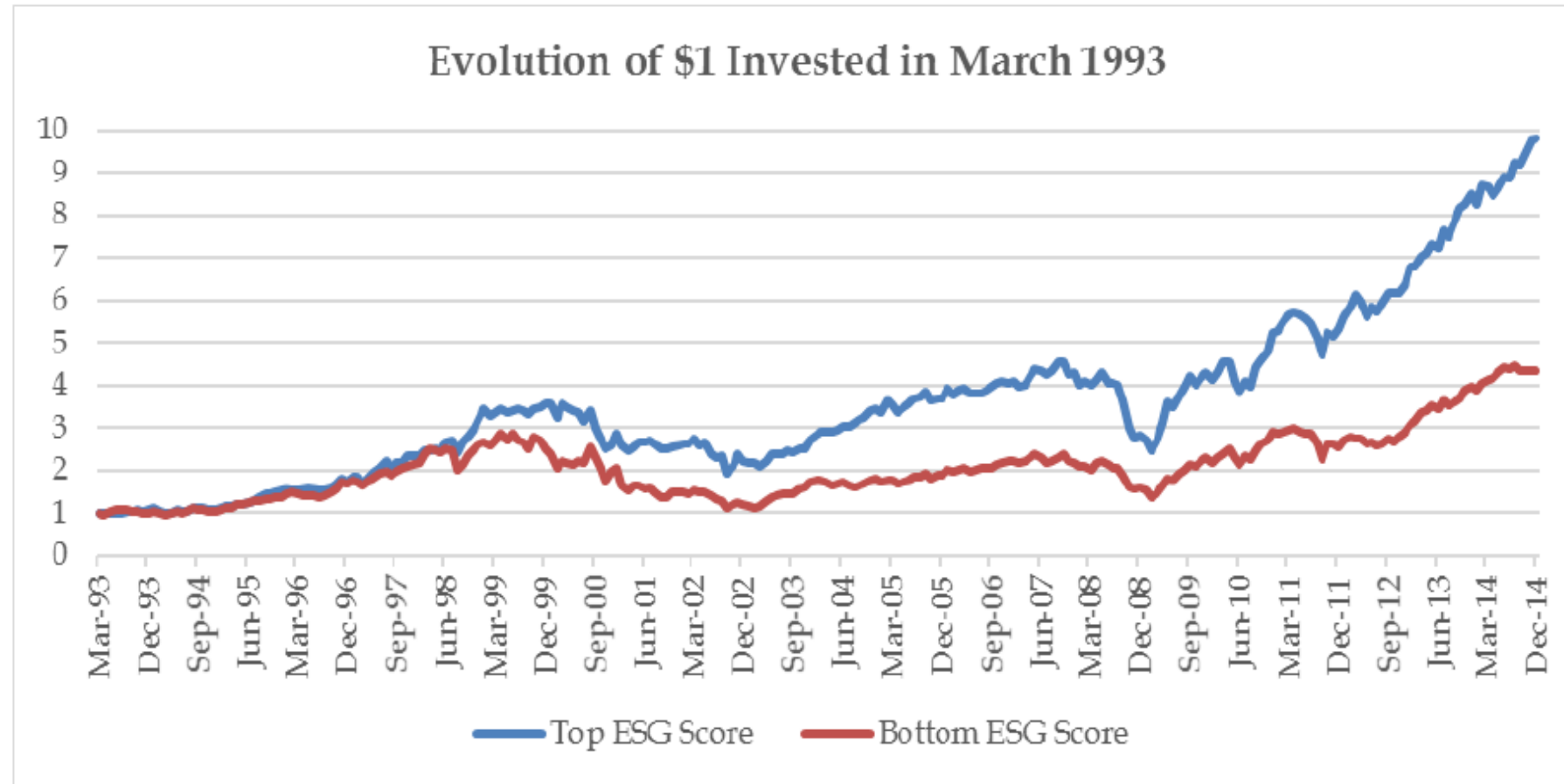
ESG 2.0

Thematic Investing



ESG incorporation: Examples

Why should investors think about ESG?



Source: Mozaffar Khan, George Serafeim, and Aaron Yoon, "Corporate Sustainability: First Evidence on Materiality," *The Accounting Review*, forthcoming, <http://ssrn.com/abstract=2575912>.

ESG Risks on the Horizon

- Climate Change
- Water Management
- Consumer Protection (privacy, sugar)
- Stakeholder Governance (supply chain, diversity)

ESG link to Financial Drivers

ESG issue

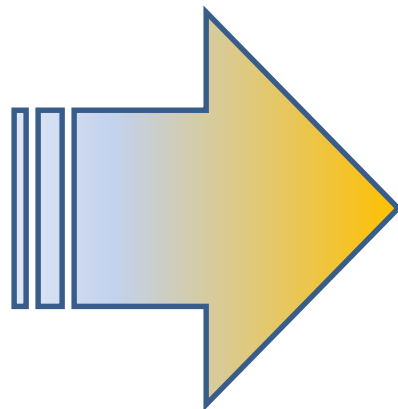
Energy, Water Usage

Waste Management

Product Safety

Corruption

Supply Chain



Financial Metric

Revenue

Cost

Assets & Liabilities

Cost of Capital

Johnson Controls (JCI)



Johnson Controls

ESG factors in Building Products & Batteries

- **Toxic Emissions**
- **Waste**
- **Health & Safety**
- **Product Opportunities**

Johnson Controls

Managing ESG Risks

- Has 25% carbon emissions reduction target
- 20% target in Waste reduction intensity
- Target Environmental Technologies

= reduced GHG emissions by 25%

= waste landfill diversion rate of 80%

= leader in auto fuel efficient batteries

Source: Johnson Controls, Inc.

International Flavor & Fragrances (IFF)



International Flavor & Fragrances

ESG factors

- **Raw Material Sourcing, Supply chain**
- **Energy, Climate Change**
- **Product Safety, Quality**
- **Water, Wastewater**

International Flavor & Fragrances

Managing ESG Risks

- **Reduced 16% energy; 22% GHG**
- **Reduced water use by 58%**
- **Decrease hazardous waste by 18.1%**

Source: International Flavor & Fragrances

ESG Today

ESG is about examining a broader risk set

- **Risks/Opportunities**
- **Solutions to Global Challenges**
- **Corporate Responsibility**



Risk Mitigating & Return Enhancing

Evolution of ESG

ESG

ESG Integration



Themes

Sustainability



SRI from
1960s

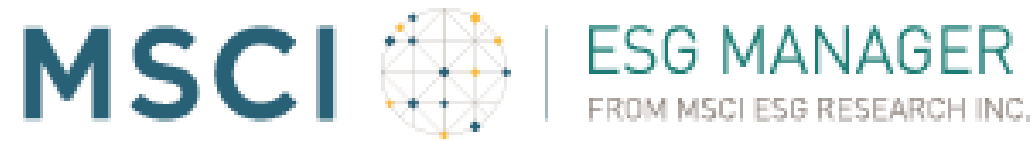
Socially Responsible
Investing



G B L

NYSE

Understand the Ecosystem



**BLOOMBERG FOR ENVIRONMENTAL,
SOCIAL AND GOVERNANCE DATA**

Morningstar Sustainability

Morningstar Sustainability Rating



Above Average



Impact Products – Fixed Income

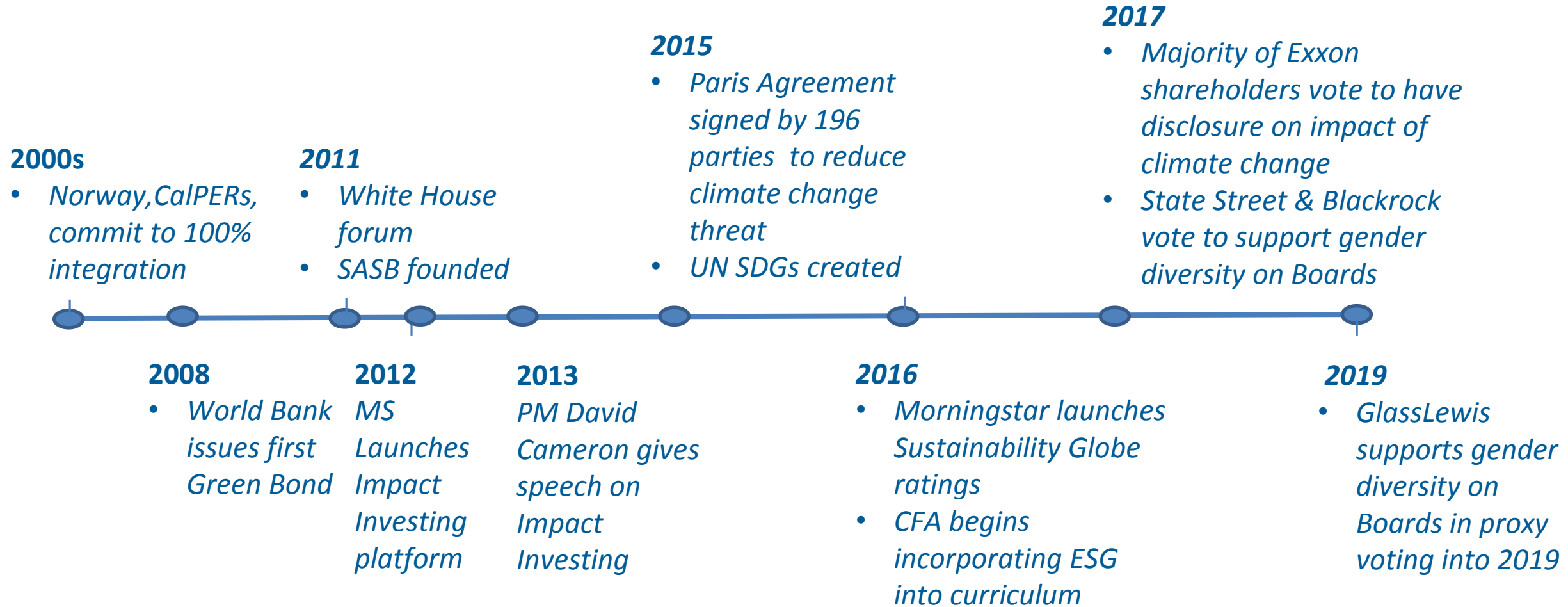
World Bank Green Bonds



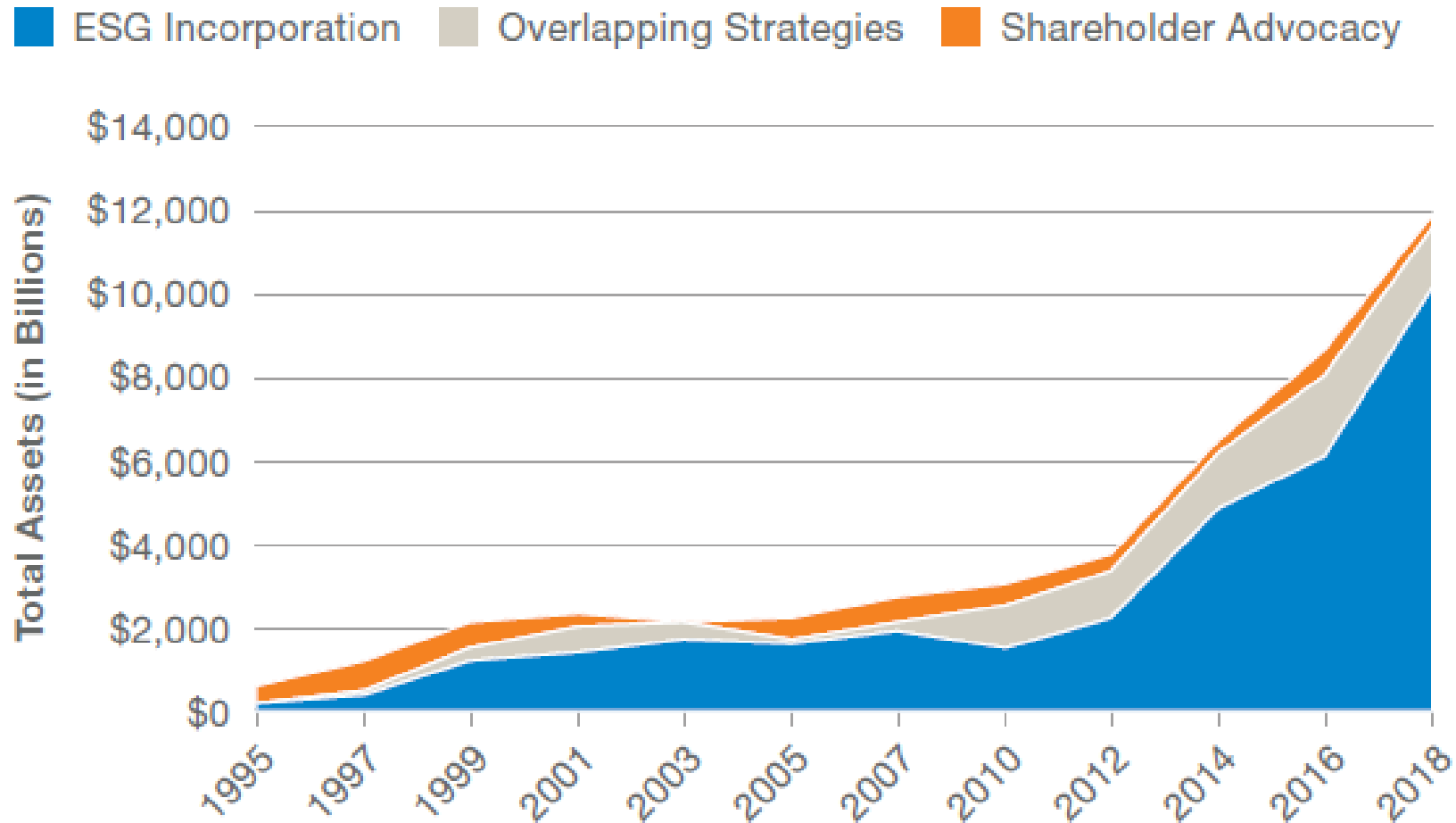
WHAT IS A GREEN BOND AND HOW DOES IT DIFFER FROM A REGULAR BOND?

A green bond is a debt security that is issued to raise capital specifically to support climate-related or environmental projects.

Milestones in Impact & ESG Investing



ESG, Sustainable & Impact Investing



SOURCE: US SIF Foundation.

Morningstar Sustainability

Morningstar Sustainability Rating



Above Average

Market Week Pullout Stocks Slip a Bit on Week; SEC Wins Big on Overseas Bribe Cases Page M3

BARRON'S

The Dow Jones Business and Financial Weekly Vol. XCVI No. 41 barrons.com October 10, 2016 \$5.00

Samsung, Our Great Call, May Jump 50% More
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OUR QUARTERLY MUTUAL FUNDS GUIDE



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Subscriptions/Customer Service: 800 544-0422

*Launched
March 2016*

Outcomes: Portfolio Carbon Footprint

MSCI ESG Carbon Footprint Calculator

All Metrics are applicable to Equities, but for Fixed Income¹ refer to only "Weighted Average Carbon Intensity" marked with the grey box

	Carbon Emissions tons CO2e / \$M invested	Total Carbon Emissions tons CO2e	Carbon Intensity tons CO2e / \$M sales	Weighted Average Carbon Intensity tons CO2e / \$M sales
Gabelli ESG Fund Coverage by Portfolio Weight ²	55.7 82.1%	2,317 82.1%	65.8 82.1%	160.7 84.0%
S&P 500 Coverage by Portfolio Weight ²	107.0 84.1%	4,451 84.1%	224.3 84.1%	201.8 99.8%
Russell 3000 Coverage by Portfolio Weight ²	106.3 85.5%	4,420 85.5%	208.3 85.4%	197.5 99.1%

Source : MSCI ESG Manager; Sample as of 12/31/18



Q & A



Gabelli ESG Fund

Class AAA: ESGGX