

# Customize your portfolio to match your values

ESG investing with  
Vanguard Personalized Indexing

## Do you want to align your portfolio with your values?

Increasingly, investors like you want to make sure their assets support issues they care about and avoid supporting others. Their desire has made environmental, social, and governance (ESG) investing, including socially responsible investing (SRI), faith-based, values-driven, or sustainable investing, a burgeoning trend.\*

People often use ESG-themed mutual funds and ETFs to make investments that express their values. However, if you want to tailor your portfolio with more precision than you can with off-the-shelf ESG investments, Vanguard Personalized Indexing could be a solution.

## ESG investing—your way

When you invest in a mutual fund or ETF, you own a single fund that bundles individual stocks together. With a Vanguard Personalized Indexing portfolio, you own individual stocks directly in a separately managed account (SMA). Direct ownership makes your personalized index fully customizable—your advisor can help you build a portfolio that precisely reflects your preferences, values, and outlook.

You can incorporate your unique values into your portfolio using both negative screens and positive tilts.

## What is a screen?

A screen eliminates certain companies, sectors or industries from your portfolio entirely, depending on criteria you select. You can screen out companies that produce guns, for example, or have been flagged for human rights abuses, or that own fossil fuel reserves. You can even screen out a single company if you have strong feelings against investing in it.

## What is a tilt?

A tilt adds a preferential weight in your portfolio to companies that score better than their peers in a specific ESG focus, such as gender diversity or a low carbon footprint. (Your advisor can give you more information on how ESG scores work.) With a positive tilt for an ESG characteristic, you could still hold some companies that score poorly in that characteristic, while holding more stocks that score well.

Tilts are designed to improve your portfolio's focus on topics that are important to you. You might want your portfolio to be lower in carbon emission intensity or higher in revenue from alternative energy, for example.

\*Alyssa Stankiewicz, "Sustainable Fund Flows Dip for the Quarter but Peak for the Year," Morningstar, January 31, 2022, <https://www.morningstar.com/articles/1076648/sustainable-fund-flows-dip-for-the-quarter-but-peak-for-the-year>

# Customization in action

## Case study



### Jordan Potential Investor\*

Age: 58 years  
Occupation: Entrepreneur  
Location: Chicago, IL

**Jordan is an avid environmentalist with strong faith-based principles—and she would like those values reflected in her portfolio.**

Jordan's advisor might use the following screens and tilts to accomplish that goal:

#### Environmental issues

- Fossil fuel screen (includes coal screen and fracking and tar sands screen)
- Waste and pollution screen
- Biodiversity screen (custom)
- Low carbon footprint tilt
- Alternative energy tilt

#### Faith-based issues

- Adult entertainment screen
- Gambling screen
- Alcohol screen (custom)
- Predatory lending screen (custom)

Her advisor can help ensure Jordan is comfortable with any potential increased risk that could result from these customizations.

## Making your choices

Once you define the investing values that matter most to you, your advisor can help you choose whether to use screens, tilts, or a combination to tailor your portfolio to reflect your preferences.

You can also review the Portfolio Impact Report your advisor creates with Vanguard Personalized Indexing tools to monitor the effectiveness of your investing choices.

**Now that you know how personalized indexing can help you align your portfolio with your values, ask your advisor whether Vanguard Personalized Indexing is the right approach for you.**

\*This is a hypothetical persona of a potential investor.

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All investing is subject to risk, including possible loss of principal.

Diversification does not ensure a profit or protect against a loss.

ESG portfolios are subject to ESG investment risk, which is the chance that the stocks or bonds screened by the data provider for ESG criteria generally will underperform the market as a whole or, in the aggregate, will trail returns of other portfolios screened for ESG criteria. The data provider's assessment of a company, based on the company's level of involvement in a particular industry or the data provider's own ESG criteria, may differ from that of other portfolios or of the advisor's or an investor's assessment of such company. As a result, the companies deemed eligible by the data provider may not reflect the beliefs and values of any particular investor and certain screens may not exhibit positive or favorable ESG characteristics. The evaluation of companies for ESG screening or integration is dependent on the timely and accurate reporting of ESG data by the companies. Successful application of the customized investment strategy will depend on the data provider's proper identification and analysis of ESG data.

For more information on Vanguard Personalized Indexing Management and Vanguard Personalized Indexing, and to access Vanguard Personalized Indexing Management's [Form CRS](#) and [Form ADV Part 2A](#) disclosure brochure, please visit the [Vanguard Personalized Indexing page](#).

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