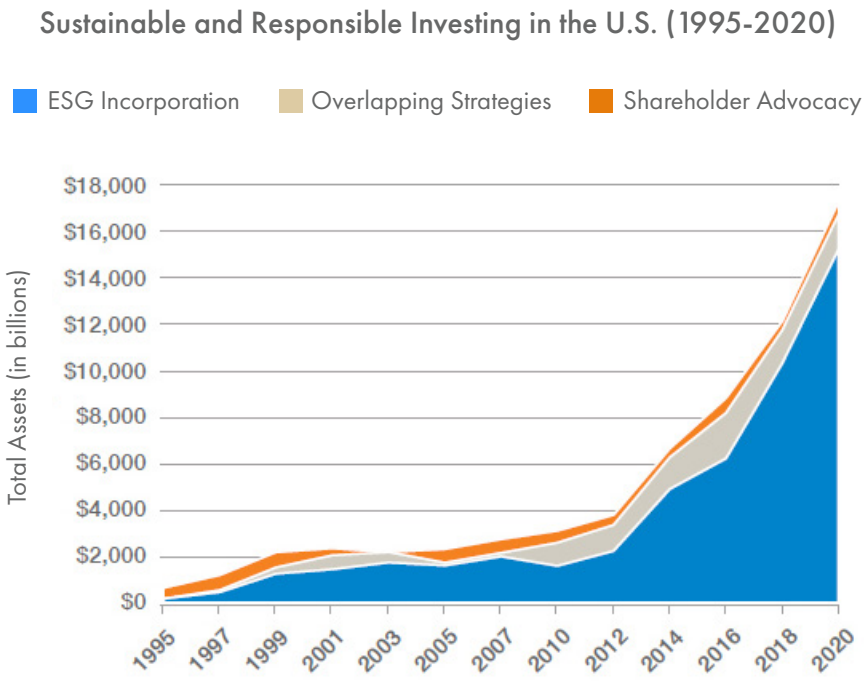
Parsec Financial's Socially Responsible Investing FAQ

What is socially responsible investing?

Socially responsible investing (SRI) is the practice of investing in a way that combines social change with performance returns. Parsec does this by evaluating a company's environmental, social and corporate governance standards, denoted by the acronym ESG.

What is the history of SRI?

Several decades ago this type of investing was typically only seen in religious endowment funds or government pensions and, as a result, did not have the scale to drive change in large global companies. The Forum for Sustainable and Responsible Investment (US SIF) has found that money managers incorporating ESG criteria has risen 93-fold, from $178 billion in 2005 to more than $16.5 trillion today. In 2020, the foundation pegs sustainable investments assets at $17.1 trillion, almost a third of all U.S. professionally managed assets.



Source: US SIF Foundation

What proof points support SRI?

Per Morningstar, interest in sustainable investing has increased dramatically. In fact, sustainable investing inflows more than doubled in 2020 to more than $51 billion. Between 2018 and 2020, registered investment company assets with an ESG mandate rose 19% to $3.1 trillion. The CEO of the world's largest investment firm, BlackRock, addressed the importance of such factors and that the philosophy is highly desirable in portfolios. Asset management companies have seen far greater desire among investors to align their investments with an SRI consideration.

What are some of the main ESG issues?

SRI aspects have not traditionally been incorporated into financial analysis, however ESG-related factors are increasingly recognized as relevant and material to financial performance. For investors and companies, they are a source of both risk and opportunity.

Environmental Factors	Social Factors	Governance Factors
• Carbon emissions	• Product safety	• Board composition
• Air/water pollution	• Data protection/privacy	• Audit committee structure
• Energy efficiency	• Gender and diversity	• Executive compensation
• Water scarcity	• Employee engagement	• Lobbying
• Deforestation	• Labor standards	• Bribery and corruption

What is Parsec's SRI offering?

Parsec's SRI portfolios add the consideration of SRI risk levels for each company to our traditional stock selection philosophy. Sustainalytics, which is now part of Morningstar, provides the metrics we use for our suitability evaluation. Additionally, the portfolios include a proxy voting service through Egan-Jones, which vote those clients' shares in accordance with an SRI framework and maximize the value of shareholder rights.

How specifically does Sustainalytics work?

Sustainalytics' investible universe covers more than 11,000 companies and excludes commonly controversial areas. Within this universe, Sustainalytics assigns each company an "ESG risk rating." The risk rating is derived from a three "building block" process, underpinned by corporate governance. The second building block concerns "Material ESG issues." Some examples include human capital or occupational health and safety. The final building block revolves around idiosyncratic, or company-specific issues.

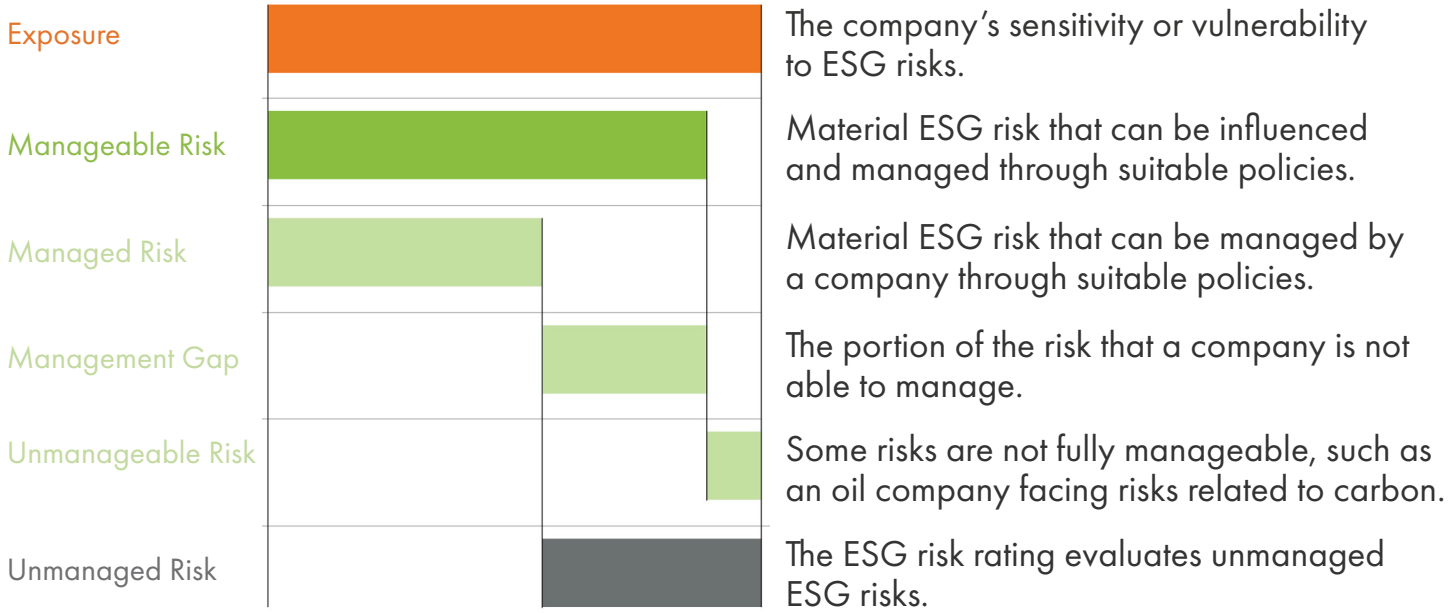
In addition to the risk-rating score, there is an exposure score, which includes corporate governance metrics and exposures to issues. Other evaluation metrics include percentile

rankings, both in the investible universe as well as subindustry. Finally, management's ability to control and limit risk levels is considered in the management gap and management risk scores.

The overall risk rating considers aggregate exposure, the degree to which each risk is manageable, and the level of which the company actually manages their risk. "Unmanaged risk" represents the difference between total exposure and managed risk, and constitutes both the management gap and unmanageable risk. The management gap can be thought of as under management's control, whereas unmanageable risk is outside of management's control.

A key component of Sustainalytics' coverage process is that the company monitors risks on an ongoing basis, a vital feature when risks inevitably change and evolve over time.

Sustainalytics: Assessing Company Level ESG Risk



What does the process look like voting via Egan-Jones?

For every investment holding in the portfolio, Egan-Jones prepares a detailed report covering every issue to be voted upon at every annual meeting. This includes director elections as well as shareholder and management proposals.

Your shares will be voted in accordance with a thoroughly researched SRI framework. In the absence of such a benefit, many shareholders do not have needed guidance on proxy voting, and do not vote on important changes, which could affect their portfolio.

How does Parsec review performance of SRI portfolios versus its other standard portfolios?

Periodically, the funds or combination of stocks and funds are examined, and performance compared with relevant benchmarks. The same philosophy applies to our review of both SRI and traditional portfolios. Key tenets of desirability include low fees, longer management tenure, a strong company ability to manage its ESG risk, strong fi360 scores, and broad diversification.

Can I invest just a portion of my entire portfolio in SRI?

Yes! SRI investment is managed at the account level, so you can have some, or all, of your accounts invested in our SRI model.

Moreover, not all SRI portfolios are created equal. It is possible to customize our traditional portfolio to include certain client objectives if you prefer. If you have specific constraints to your traditional portfolio (such as no oil companies, no fracking, no "SIN" stocks, etc.), please speak with your advisor.

If I open an SRI portfolio but change my mind, what is the process of reallocating?

For nontaxable accounts, we can quickly and easily reallocate with little to no trading costs. For taxable accounts, we may need to plan a method of reallocation that considers the impact of capital gains taxes.

How do I get started with a Parsec SRI portfolio?

Existing clients should contact their Parsec advisor to further discuss this new portfolio. For new clients, Parsec has financial advisors on staff who specialize in socially responsible investing and understand your socially conscious priorities in order to provide you with this customized SRI portfolio. You can contact them here: parsecfinancial.com/socially-responsible-investing

Socially Responsible Investing (SRI, also known as Environmental, Social Governance – ESG) strategies prioritize ESG criteria over other investment criteria. As a result, such strategies will be more limited in the number and types of investments available and may perform differently than strategies that do not screen for ESG factors. Socially responsible investing is qualitative and subjective by nature, and there is no guarantee that the criteria utilized, or judgment exercised, by Parsec Financial will reflect the beliefs or values of any one investor. Socially responsible norms differ by region. There is no assurance that the socially responsible investing strategy and techniques employed will be successful. Past performance is not a guarantee or reliable indicator of future results.

Additional information, including management fees and expenses, is provided on Form ADV Part 2, available upon request or at the SEC's Investment Advisor Public Disclosure site: www.adviserinfo.sec.gov/Firm/104919