TCW New America Premier Equities Fund

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MANAGER VIEWPOINT

A Highly Active, Quantitative Approach to ESG

With no set industry standard for measuring and utilizing Environmental, Social, and Governance (ESG) factors, investors need to be discerning when considering ESG portfolios. The TCW New America Premier Equities Fund (TGUSX/TGUNX) utilizes a proprietary quantitative process and very active fundamental analysis to identify and invest in a concentrated, high-conviction portfolio of businesses with exemplary ESG attributes. Following are insights on ESG and the TCW New America Premier Equities Fund from Portfolio Manager Joseph Shaposhnik.

Managers approach ESG scoring in many ways. How do you score for ESG factors?

Joseph Shaposhnik: Most managers rely on ESG scores from third-party providers. For the TCW New America Premier Equities Fund, we use a proprietary process that first looks at publicly reported data that is annually reported by companies in corporate sustainability and citizenship reports. Once this data is in our systems, we organize it such that we can then translate the data into scores for individual businesses for all the companies in our investment universe. We create two scores on individual businesses. First is a fundamental score that looks at how the business performs on fundamental ESG factors that are relevant for their industry. Second is a disclosure score that measures the percentage of factors that we deem relevant for the industry that the company is reporting.

Once we have these two scores, we then create a sector average for each score. This allows us to compare each business score against the sector average score. We then focus our investment effort on those companies that score above the sector averages.

Joseph R. Shaposhnik
Portfolio Manager
Managing Director
Equities

Mr. Shaposhnik is Portfolio Manager of TCW's New America Premier Equities, Global Premier ESG Equities, and Global Space Technology Equities portfolios and leads the firm's publicly listed equities investment effort in the environmental, social, and governance area. The TCW New America Premier Equities investment strategy received performance awards from Lipper in 2017 and the Wall Street Journal in 2017 and 2018. Mr. Shaposhnik serves as a Senior Equity Analyst in the Equity Research group with coverage responsibility for the industrials and basic materials sectors. Prior to joining TCW in 2011, he was an Equity Research Associate at Fidelity Management and Research Company, where he followed the semiconductor and entertainment software sectors for the firm's U.S. domestic equity funds. Mr. Shaposhnik holds a BS in Business Administration from the Haas School of Business at the University of California, Berkeley, and an MBA from the UCLA Anderson School of Management.

Overall Morningstar Rating™

I & N Share rating based on risk-adjusted returns among 1,256 funds in the **Large Growth** category as of 3/31/19.

The Overall Morningstar Rating for a fund is derived from a weighted average of the performance figures associated with its 3-, 5-, and 10-year (if applicable) Morningstar Rating metrics.

†See important Morningstar Rating™ disclosures on the last page.

You should consider the investment objectives, risks, charges and expenses of a mutual fund carefully before investing. A Fund's Prospectus and Summary Prospectus contain this and other information about the Fund. To receive a Prospectus, please call 800-386-3829 or you may download the Prospectus from the Fund's website at TCW.com. Please read it carefully.

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So it seems you take a more active, rather than an exclusionary, approach in your screening process. Why do you think this adds value?

Joseph Shaposhnik: We place this analytical screening framework at the start of our investment research process, which means that we are taking a highly active and very data-driven approach in looking at ESG factors. Even though we know there are some companies that we will never invest in – traditional sin stocks are a good example – we believe that scoring all companies in our investment universe provides us with a data set that is very useful. Data helps us make better decisions for the portfolio construction process. So by not excluding certain companies or industries, we can then collect and analyze all of this valuable data before paring down the list of possible investments.

What factors do you measure and find most relevant within your ESG framework, and are they consistent across industries?

Joseph Shaposhnik: We measure approximately 35 environmental, social and governance factors for our scoring process. These factors include CO2 emissions, waste, water usage, diversity of management, R&D investment, and the attendance record of the board of directors. The factors we consider are not consistent across all industries because some factors are highly relevant for a specific industry, whereas others are either less relevant or not relevant at all. A good example of this is the manufacturing sector. In that sector, safety and energy usage are highly relevant as we develop an ESG score. However, for the software industry, those factors are significantly less relevant.

Is there a correlation between high ESG scoring companies and the long-term performance of those companies?

Joseph Shaposhnik: We are strong believers that companies that manage their environmental resources well, take good care of their people, and demonstrate good corporate governance are very likely to manage their overall businesses in a superior way. This is something that many market participants likely undervalue, but it makes a lot of sense because in those factors alone you are seeing a long-term perspective being taken by management. Secondarily, we have found that those companies that demonstrate high ESG fundamental performance and disclosure also have alpha factors that have historically been correlated with better risk adjusted returns.

Your portfolio is fairly concentrated. Why do you take this approach?

Joseph Shaposhnik: Conventional wisdom is that a high degree of diversification leads to less risk. We take the opposite viewpoint and would argue that concentration can actually reduce risk. We believe that an appropriately managed portfolio with a limited number of extremely well managed businesses is likely to see less volatility, and thus less risk, than a highly diversified portfolio of 100 companies, many of which may not be so well managed. This approach requires getting the research right and maintaining a highly disciplined approach to vetting companies, but it is an approach that we believe pays off.

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The Morningstar Rating™ for funds, or "star rating", is calculated for managed products (including mutual funds, variable annuity and variable life subaccounts, exchange-traded funds, closed-end funds, and separate accounts) with at least a three-year history. Exchange-traded funds and open-ended mutual funds are considered a single population for comparative purposes. It is calculated based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a managed product's monthly excess performance, placing more emphasis on downward variations and rewarding consistent performance. The top 10% of products in each product category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star. The Morningstar Overall Rating for a managed product is derived from a weighted average of the performance figures associated with its three, five, and 10-year (if applicable) Morningstar Rating metrics. The weights are: 100% three-year rating for 36-59 months of total returns, 60% five-year rating/40% three-year rating for 60-119 months of total returns, and 50% 10-year rating/30% five-year rating/20% three-year rating for 120 or more months of total returns. While the 10-year overall star rating formula seems to give the most weight to the 10-year period, the most recent three-year period actually has the greatest impact because it is included in all three rating periods. The TCW New America Premier Equities Fund, I & N Shares was rated against the following numbers of Large Growth funds over the following time period: 1,256 funds in the last three years. Past performance is no guarantee of future results.

GLOSSARY OF TERMS

Alpha – A measure of active return on investment in excess of benchmark index. **ESG** – Environmental, social, and governance. **Fundamental Analysis** – Attempts to measure a security's intrinsic value by examining related economic and financial factors, which can be both qualitative and quantitative in nature. **Risk-Adjusted Return** – Refines an investment's return by measuring how much risk is involved in producing that return, which is generally expressed as a number or rating. **Sin Stocks** – A sin stock refers to a publicly traded company that is either involved in or associated with an activity that is considered to be unethical or immoral. **Sustainability** – Sustainability focuses on meeting the needs of the present without compromising the ability of future generations to meet their needs. **Volatility** – A measure of the risk of price moves for a security calculated from the standard deviation of day-to-day logarithmic historical price changes.

INVESTMENT RISKS

Equity Risk – Equity investments entail equity risk and price volatility risk. The value of stocks and other equity securities will generally fluctuate and may decline in value over short or extended periods based on changes in a company's financial condition and in overall market and economic conditions. **Financial Services Sector Risk** – Companies in the financial services sector may be affected by the overall economic conditions as well as by factors particular to the financial services sector. **Frequent Trading Risk** – Frequent trading will lead to increased portfolio turnover and increased brokerage commissions and may produce capital gains which are taxable to shareholders when distributed. **Growth Investing Risk** – Growth stocks may be more volatile than other stocks because they are more sensitive to investor perceptions of the issuing company's growth potential. **Industrials Sector Risk** – Companies in the industrials sector may be affected by the overall economic conditions as well as by factors particular to the industrial sector. **Information Technology Sector Risk** – Companies in the information technology sector may be affected by the overall economic conditions as well as by factors particular to the information technology sector. **Issuer Risk** – The value of securities held by a Fund may decline for a number of reasons directly related to an issuer, such as changes in the financial condition of the issuer, management performance, financial leverage and reduced demand for the issuer's goods or services. **Liquidity Risk** – A Fund's investments in illiquid securities may reduce the returns of the Fund because it may not be able to sell the illiquid securities at an advantageous time or price. **Market Risk** – Returns from the securities in which a Fund invests may underperform returns from the various general securities markets or different asset classes. Adverse events in an issuer's performance or financial position can depress the value of its securities, as can liquidity and the depth of the market for that security, a market's current attitudes about types of securities, market reactions to political or economic events, including litigation, and tax and regulatory effects (including lack of adequate regulations and federal, state and other government and regulatory intervention to regulate or support institutions, markets and Funds). **Portfolio Management Risk** – Portfolio management risk is the risk that an investment strategy may fail to produce the intended results. **Price Volatility Risk** – The value of a Fund's investment portfolio will change as the prices of its investments go up or down. The Funds that invest primarily in the equity securities of small- and/or mid-capitalization companies are generally subject to greater price volatility than mutual funds that primarily invest in large companies. The fewer the number of issuers in which a Fund invests, the greater the potential volatility of its portfolio. **Securities Selection Risk** – The specific securities held in a Fund's investment portfolio may underperform those held by other funds investing in the same asset class or benchmarks that are representative of the asset class because of a portfolio manager's choice of securities. **Value Investing Risk** – Undervalued stocks may not realize their perceived value for extended periods of time or may never realize their perceived value. *Please see the Fund's Prospectus for more information on these and other risks.*

GENERAL DISCLOSURE

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