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Investment Insights

The Great Shift: Shareholder to Stakeholder Capitalism

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The opinions are those of the author(s) and subject to change.

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Following on releases of the Chief Investment Office (CIO) Insights "The Great" series[1]—comes *The Great Shift*. In this report, we examine the powerful shift toward stakeholder capitalism for companies and the related sustainable and impact investor movement, both of which have accelerated along with the proliferation of environmental, social and governance (ESG) data and metrics. In the context of this shift, we also examine the potential longer-term asset allocation adjustments that investors will likely consider.

ESG has evolved significantly since the earlier days when the discussion was more about avoidance—avoid areas known as the "sin" stocks or targeting areas to improve such as the broader climate and creating the green effect—but now there is a much more robust, much deeper and wider effort around sustainability, making an impact, the improvement factor, and simply being "responsible."

Dialogue around stakeholder capitalism, community advancement, an all inclusive opportunity-based society and how this is spreading through the private sector and what it means from an investor's perspective—and portfolio composition—continues to gather positive momentum. We believe portfolio efficiency per dollar of investment capital rises significantly when invested within a sustainable and impact lens.

Perhaps, in the very near future, ESG can be further described as "Each Society's Gain!"

Stakeholder capitalism is addressing a key shortfall of shareholder capitalism by elevating social and sustainability issues that are often undervalued in economic systems where the focus is on profits and efficiency. To be clear, shareholder capitalism is not dead. Milton Friedman—American economist and recipient of the 1976 Nobel Memorial Prize in economics—is famous for saying, "the business of business is business." And the business of business is still business, as firms are simply adapting to society's changing preferences and risks (climate change, for example), which in many cases have the potential to align with shareholders' goals. For ages, capitalism has been evolving to help create better economic outcomes by profitably attempting to solve some of the world's most pressing problems, and this renewed "great shift" is a continuation of that trend.

LET'S GET CONCRETE ABOUT STAKEHOLDER CAPITALISM

Being a stakeholder-focused company means upping the influence of workers, customers, the community and others critical to long-term success.

Harvard Law School February 2020.

SO WHY NOW?

The idea of stakeholder capitalism has been around for most of the post-war period, but a confluence of factors since the 2008/2009 Global Financial Crisis (GFC) has accelerated this shift. The current shift is acknowledgment that capitalism and free markets have the opportunity to bring significant economic benefits, but often with unequal consequences that has the potential to erode social stability or fail to address externalities. For example, while globalization has lifted hundreds of millions of people

[1] The Great Separation April 2020; The Great Acceleration May 2020; The Great Convergence May 2020; The Great Clash June 2020; The Great Consolidation July 2020; The Great Rivalry August 2020; The Great Reset August 2020 and The Great Rebalance September 2020.

out of poverty worldwide, according to Abhijit Banerjee and Esther Duflo[2], particularly in developing economies like China and India, it has left many behind in terms of job opportunities and relative wage growth while largely ignoring a plethora of other social inequities. It has also failed to properly address the concerns of climate change. In turn, stakeholder capitalism is on the rise while shareholder capitalism is on its heels. That said, the benefits of shareholder capitalism and its close relative globalization are considered well respected, supporting our view that this is indeed a "shift" and not an outright replacement. As Abhijit Banerjee and Esther Duflo stated: "Between 1980 and 2016, the average income of the bottom 50 percent of earners nearly doubled, as this group captured 12 percent of the growth in global gross domestic product (GDP). Never before in human history have so many people been lifted out of poverty so quickly." But it seems individual countries have had different experiences where it is increasingly focused less on a "rising tides lifting all boats" and more on domestic inequities, in gender and race, for example. While the world's underprivileged may be better off in aggregate, inequality within countries, including the U.S., seems to have grown. This is most notable in the rise in the Gini Index[3] in the U.S.

Why? The main thesis in Thomas Piketty's 2013 book entitled "*Capital in the Twenty-First Century*" was that inequality, as he calculated, was being driven by automation and globalization (moving jobs offshore for efficiency, for example) and that automation and globalization led to the wealthy accumulating capital at the expense of labor (jobs and wages). Whether or not his analysis (or other measures of inequality) is accurate (it is hotly debated in the academic world), misses the point. The pushback against globalization could be seen in the prevalence of trade wars and the localization of supply chains, while immigration policies across the globe are considered increasingly stringent. Dissatisfaction with the consequences of globalization also fueled the Brexit vote in 2016 and the rise of populism more broadly. More importantly, while calculations of household income growth and inequality in different cohorts at the macro level are dubious and often cherry picked in both directions, many of the failures of shareholder capitalism that are likely driving the push to stakeholder capitalism are unambiguous. Visible concentrations of poverty, the lack of diversity on company boards and in management, race and gender pay gaps, access to financing for small businesses, affordable housing, and sustainable infrastructure support for transportation, education, healthcare are just some examples. Even as jobs were plentiful during the U.S's last expansion and the unemployment rate in the U.S reached new lows according to the Bureau of Labor Statistics, the pushback against shareholder capitalism did not lose traction because these issues are independent of broader labor market trends just as they are independent of "the rising tide." The ongoing global coronavirus pandemic has probably reinforced awareness of many of these inequities such as "working from home"—which often doesn't work for all.

Monetary policy has also played a role in concerns over wealth gaps. The post-GFC world is one where aggressive reflationary monetary policy was aimed at driving up the price of risk assets, like equities, through what was called the "portfolio balance effect" by the Federal Reserve (Fed). Owners of assets like equities and real estate have the potential to benefit from these policies while others are left to watch capital gains accumulate. Importantly, this is not a critique of monetary policy, as aggressive reflationary monetary policy helped to prevent catastrophic economic outcomes in both the GFC and the recent pandemic. Rather, it is an unintended consequence that plays a role in this "great shift". Many social and economic insecurities have been left unaddressed by governments in the West. While governments explore their options (wealth taxes, higher income taxes, expanded welfare provisions, other social transfers), individual stakeholders have taken action. Coalitions of private sector participants are saying "enough is enough." One could have been unsuccessful to deliver a broad, green resource mobilization. A market-based solution to the looming environmental disaster driven by entrepreneurial innovation and falling costs of sustainable energy also does not appear to be coming fast enough,

INVESTMENT IMPLICATIONS

We believe *The Great Shift* toward stakeholder capitalism reinforces our view that ESG factors may be additive to investment decision-making, both to help evaluate risks and uncover potential opportunities.

[2] Abhijit Banerjee and Esther Duflo, professors of Economics at MIT, authors of Good Economics for Hard Times: Better Answers to Our Biggest Problem, and 2019 Nobel Prize winners in Economics. As of 2019.

[3] In economics, the Gini coefficient, sometimes called the Gini index or Gini ratio, is a measure of statistical dispersion intended to represent the income inequality or wealth within a national or any other group of people.

as natural disasters of various kinds (fires, hurricanes) continue to batter critical infrastructure and personal property. While the growing concern of climate change has suggested sustainability is increasingly aligned with shareholders goals, the stakeholder movement will help bridge the gap until we see the market drive home these solutions.

As noted in the CIO Investment Insights, "The Great Clash: The Crisis Doesn't Stop Change June 2020," we outlined risks and incentives: Companies that embrace more climate-friendly business models and operations have the potential to position themselves for sustained growth over the long term.

Given this historical context, we believe the shift to stakeholder capitalism has staying power. This is increasingly evident in surges in corporate commitments and statements supporting stakeholder capitalism. For example, in December 2019, the World Economic Forum updated its "Davos Manifesto,"—a set of ethical principles to guide companies in the age of the Fourth Industrial Revolution—to coincide with its 50th anniversary. It now plainly states, "that companies should pay their fair share of taxes, show zero tolerance for corruption, uphold human rights throughout their global supply chains, and advocate for a competitive level playing field". We do not see this as a call for replacing capitalism with socialism; instead, we see this as acknowledging the role of the corporation going beyond dollars and cents, stock prices and dividends. While some companies may have fully embraced this concept and actually have incorporated as benefit corporations (a type of for-profit corporate entity), the majority of others seem to recognize that their bottom lines and market capitalizations may be driven by more and more previously called "nonfinancial" factors, and that their role in our economy may represent the well-being of their shareholders, of course, but also their employees, customers, suppliers, and communities where they operate.

Importantly, the events that have led to a "great shift" and *The Great Shift* itself may have "neither destroyed nor diminished the fundamental human urges that have always powered the capitalist system—ambition, initiative, individualism, the competitive spirit, etc."[4] These are rooted in principles like freedom of speech, human rights and rule of law, which made this movement possible and also make it likely that *The Great Shift* will enhance shareholder capitalism in a way that makes for a more dynamic, balanced U.S. economy.

ACCOUNTABILITY

One of the key reasons stakeholder capitalism has the potential of staying power in a "great shift" is the collective push of corporate leaders, investors and other stakeholders toward accountability. Clear, consistent and compelling metrics benefit everyone. Companies have the ability to demonstrate long- term value creation for stakeholders, investors could analyze a company more holistically, and stakeholders should be empowered to hold both accountable. As of today nine of 10 S&P 500 members are publishing a sustainability report, and the prevalence of integrated reports is increasing steadily, according to the Association of Chartered Accountants.

While corporate disclosure of policies, practices and performance toward targets grows, ESG data from other sources increased. Investors thus have access to both raw data and aggregated ESG ratings. We see institutional investors and fund managers taking a leadership role here, choosing ESG awareness and inclusion in investment decision-making. We may also see accountability extend to the macro level. The adoption, in 2015, of the United Nations (UN) Sustainable Development Goals (SDGs)—a blueprint of interconnected ESG goals ratified by 193 countries—was able to provide a roadmap toward a more sustainable future. Increasingly used by corporations to measure contribution and by asset owners* to align investment portfolios, the goals provided a common framework and language. Investors could also leverage macro-level ESG metrics to help gauge the attractiveness of investing at the sovereign level or even assessing sovereign risk for fixed income products, for example.

INVESTMENT IMPLICATIONS

Companies and investors who proactively integrate ESG into their corporate or investment strategies have the potential to be on their front foot when it comes to helping to create solutions to the most pressing problems facing people (global pandemic, economic and racial inequality) or planet (climate change, a low carbon future) and leading to prosperity (jobs, communities).

* Asset owners is a broad term encompassing, including but not limited to, pension funds, sovereign wealth funds, endowments, foundations, Outsourced CIO, individuals and families.

[4] The Brookings Institute, Future Development: Stakeholder capitalism arrives at Davos as of January 2020.

The field of ESG data has transformed in recent years and looks to continue to rapidly evolve. To that end, the International Business Council of the World Economic Forum, Chaired by Bank of America CEO Brian Moynihan, and together with the Big Four Accounting firms, has developed a series of sector agnostic non-financial disclosures aligned to the SDGs that can serve as a consistent, assurable mechanism to measure a company's commitment to measuring stakeholder capitalism. The Stakeholder Capitalism Metrics (SCM) draw well accepted metrics from existing global standards setters, including the Sustainability Accounting Standards Board (SASB), the Global Reporting Initiative (GRI) and others. Reporting on these metrics will provide stakeholders, including shareholders and investors, with comparable data across the range of ESG considerations. The SCM is also helping to drive convergence among global standards setters with the goal of developing a single set of global recognized non-financial accounting metrics.

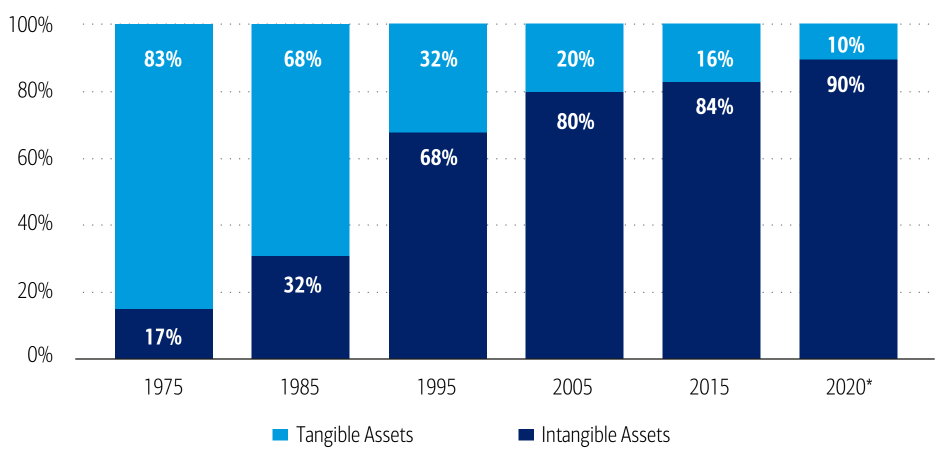
BRAND AND REPUTATION

Nonfinancial measure such as a company's brand and reputation, intellectual property and how they treat their employees and customers are more than likely to become key to the financial evaluation of a company. As a result, many companies are now looking to prioritize ESG risks as part of their operational strategy.

ESG'S ROLE

If you've only associated the term ESG with a moral- or values-based approach, one of the most important aspects of this "great shift" is that ESG is likely to become a language and measurement tool for stakeholder capitalism. Conventional accounting did not treat nonfinancial resources—things like human, social and natural capital—as assets, even though they undeniably represent sources of future value. But beyond that, in the absence of applicable accounting metrics to help aid efficient pricing, the market value of these assets could be particularly sensitive to impairment by mismanagement. For example, ESG related risks may exist regarding employee health and safety, data security, or physical resources exposed by previously unforeseen disruptions due to wildfires or hurricanes (Exhibit 1).

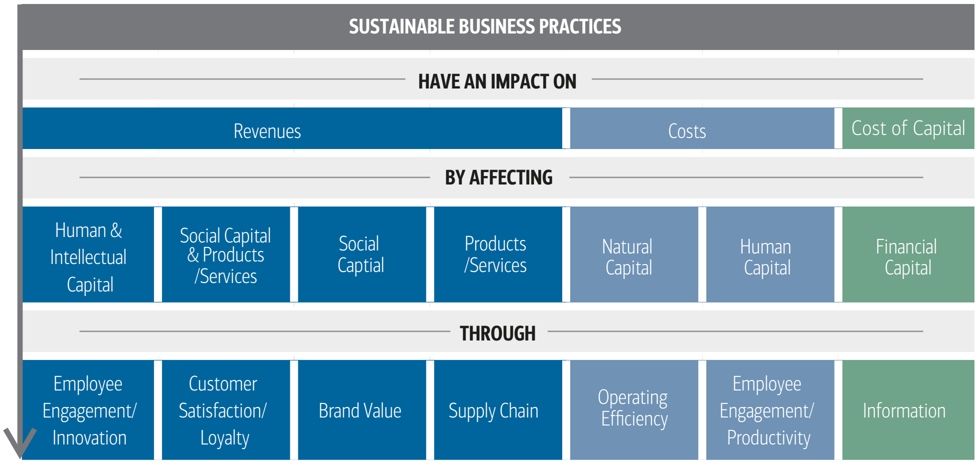
Exhibit 1: Intangible Assets as a % of Market Value Have Increased.



Sources: Ocean Tomo, LLC Intangible Asset Market Value Study, 2020
*Interim study update as of July 1, 2020.

What was previously seen as nonfinancial and therefore not economically relevant has the opportunity to now be understood as critically important to driving fundamental financial factors like revenue growth, operating margins through cost of goods sold, or even cost of capital through equity or debt (Exhibit 2).

Exhibit 2: Financial Relevance of Sustainable Business Practices.



Source: Calvert Investment Management, The Calvert-Serafeim Series-The Role of the Corporation in Society: Implications for Investors, September 2015. For illustrative purposes only.

Revenue opportunities may seem obvious as companies take market share from less sustainable competitors or venture into new lines of business. But revenue may also increase through strong community relations, which may ease permitting processes, especially in controversial industries like mining, energy or chemical processing. Cost of goods sold can likely be radically reworked through changes to more sustainable materials, revising packaging or reclaiming water, waste or energy. But costs may also be reduced through employee engagement, leading to lower absenteeism and turnover.

And more recently, we are seeing implications in cost of capital as laggards generate less investor interest, which reduces their stock market valuation and raises their cost of capital. Simultaneously corporates issued over $99.9 billion in sustainability bonds in the second quarter for 2020 (65% higher than Q1) and sustainability linked loans become mainstream. When considering how these bonds price, BofA Global Research notes in their Going Green February 2020 report that “new U.S. investment-grade corporate green bonds generally price slightly better than the overall market,” with this research indicating around 2 basis points (bps) lower new issue concession for green bonds—meaning lower pricing relative to the issuer’s outstanding bonds. Conversely, the potential increased cost of capital for laggards is real as well, according to Moody’s August Sustainable Finance Update, “the potential consequences of not acting on significant ESG risks have been vividly illustrated during the current crisis and will have enduring implications for assessing credit risk, with increased differentiation in favor of those entities able to demonstrate a stronger capability of addressing these risks”. U.S. companies that have strong ESG-related disclosures generally trade at a 10% to 20% transparency premium to peers as indicated in the BofA Global Research ESG “Need-to-knows” for Corporates: Disclosures report August 2020. The premium has narrowed recently, but the example illustrates that quality ESG disclosure and transparency may be rewarded by investors’ willingness to pay for a stock translating to incrementally lower cost of equity for a company.

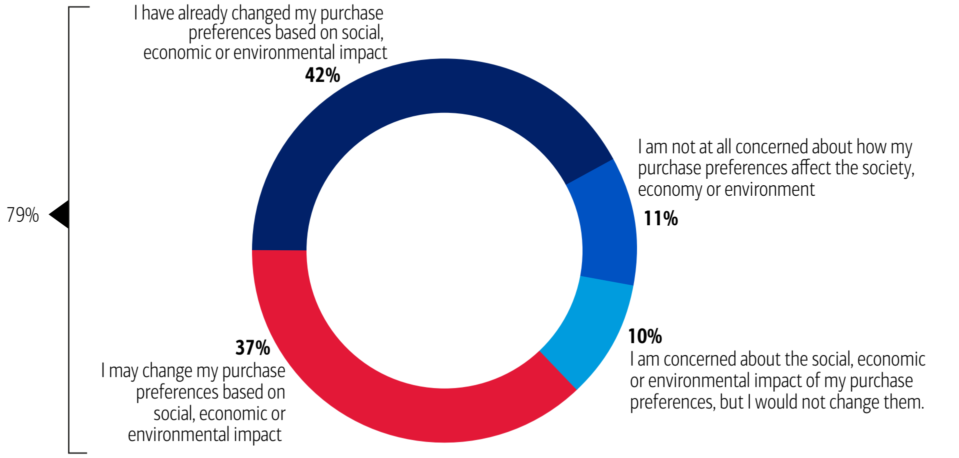
Trends and Tailwinds

There are several trends and tailwinds currently accelerating the shift to stakeholder capitalism. Notably a change in consumer preferences as the American public would like more from businesses. According to JUST Capital 2019 Roadmap for Stakeholder Capitalism survey, “Americans deserve an economy that allows each person to succeed through hard work and creativity and to lead a life of meaning and dignity.” Yet the same research indicated that their perception of companies’ serving as a positive impact on society is deteriorating, down 17%, from 58% in 2018 to 48% in 2019.

Consumers

Increasingly, consumers are deciding with their dollars—Capgemini research shows that 79% of consumers are changing purchase preference based on social, economic and environmental impact. Yet organizations continue to materially underestimate the consumers' willingness to shift, estimating just 37% (Exhibit 3).

Exhibit 3: Consumers Are Changing Purchase Preferences Based on Social, Economic and Environmental Impact.



Source: Capgemini, Consumer Products and Retail – How sustainability is fundamentally changing consumer preferences, April 2020.

Workforce

The demographic shift of the workforce and the demands of these workers help to reinforce this shift. By 2025, millennials are expected to account for approximately 75% of the global workforce according to The Deloitte Global Millennial Survey 2014. This generation seems to be committed to lead positive change in their communities and across the globe, a commitment that they are trying to move businesses to mirror—people before profits. It has been a growing driver for talent recruitment, retention and overall bottom lines, as top talent seeks organizations that foster innovative thinking, a diverse workforce and a commitment to try to make a positive contribution to society.

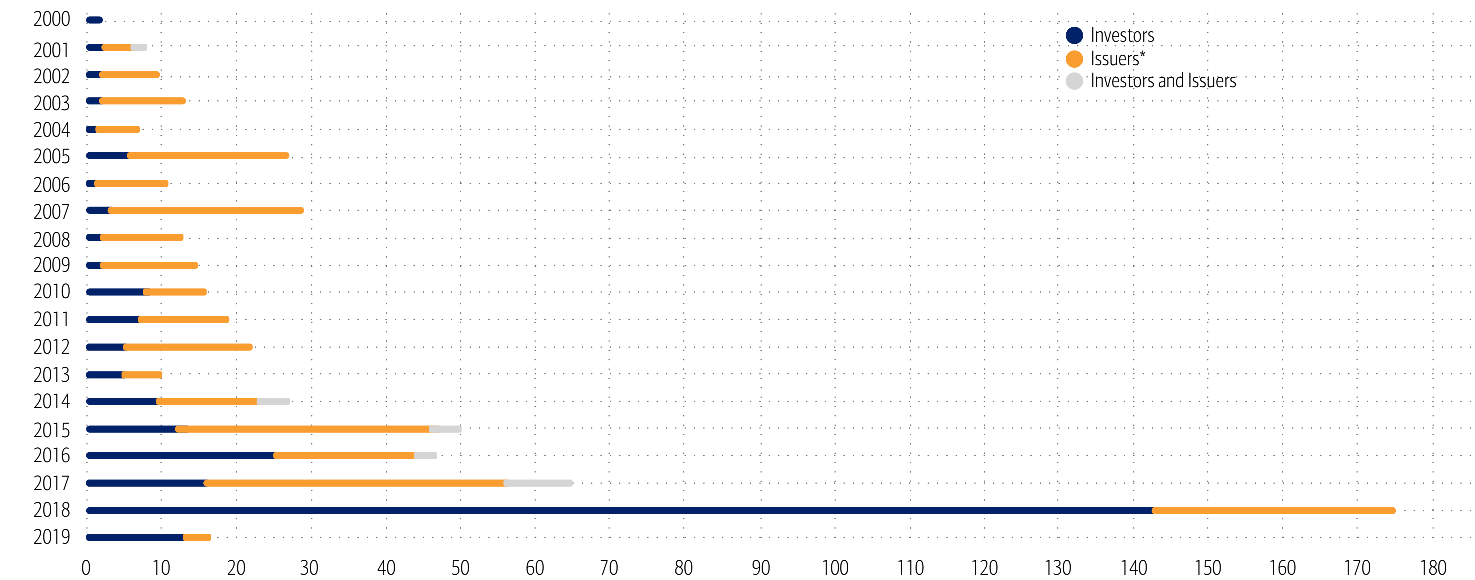
A matter of rising importance to the broader workforce as well, JUST Capital 2019 Roadmap for Stakeholder Capitalism survey shows that 78% of American workers said that they would accept 10% less pay to work for a company that is doing right by America, with more than two-thirds saying they would accept 20% less pay. And when asked which stakeholders U.S. companies should prioritize, worker-related issues—including pay, benefits and treatment—scores highly across a multitude of demographics.

Regulatory Backdrop

The evolving regulatory backdrop is an important tailwind, as the focus expands from company ESG-related disclosure requirements to those of asset owners and asset managers *. It's a welcome support. In fact 70% of 220 global institutional investors surveyed by Ernst & Young's 2018 Climate Change and Sustainability Services study say national regulators are best suited to close the gap between investors' need for nonfinancial information and issuers' information. Broad ESG regulations have seen exponential growth. In 2019, the MSCI 2019 ESG Trends to Watch report stated more than 170 new ESG-focused regulations or quasi-regulations were proposed globally, more than the prior six years combined (Exhibit 4).

* Asset manager is a person or financial firm that manages the securities portfolio of an individual or institutional investor.

Exhibit 4: Number of ESG Regulations Has Increased Since 2000.



*Issuer is a legal entity that develops, registers and sells securities for the purpose of financing its operations.

Note: Regulations collected by MSCI and the UN PRI's ESG regulations database; regulations can be either mandatory, voluntary, or explanatory in nature – and are collected globally. Source: MSCI ESG Research, UN PRI, as of January. 15, 2019. Source: MSCI 2019 ESG Trends to Watch January 2019.

Movements

Social movements, coupled with the global health crisis, seems to have accelerated corporate commitments to sustainability and stakeholder capitalism. Our global health crisis has demonstrated the urgent need for both health and safety practices but has also spotlighted the interconnected nature of our economic system and lives.

With the rise of new movements for gender equality, a spotlight has been shone on some of the inequalities women continue to face. Requests for racial justice are looking for firms to commit to proactively address systemic racism, recognizing that authentic conversations and actions are necessary to meet society's emerging expectations. Corporate leadership in supporting both economic vitality and sustainable practices is likely to become a business imperative that helps drive real value creation and brand loyalty from not only consumers, but employees and investors alike.

Environmental & Social rise in the boardroom: The Next Phase of Good Governance

Management of environmental and social risks emerged as essential to good governance practices. As firms identify their material ESG factors and look to engage with stakeholders proactively, boards are more likely to increasingly diversify by race and gender while also seeking to add sustainability expertise. While there are no longer any all-male boards in the Fortune 500, women of color hold just 4.6% of those board seats according to the 2019 Deloitte and the Alliance for Board Diversity Report. Focus on intangible value drivers such as talent and engagement, research and innovation, culture and human rights and community relations and societal trust will likely intensify. And, where firms appear to miss the mark, activist investors may use poor oversight of environmental and social issues that have a material impact on businesses against management in contested situations.

Industry transformation accelerated through consortiums

Sectors—including those that have previously demonstrated resistance—will have the opportunity to participate in the transition to stakeholder capitalism. Self-regulatory activity through industry collaborations around major issues may become a force behind *The Great Shift*—and a place where companies/industries might "surprise to the upside."

GLOBAL FRAMEWORK

Eleven banks created a coalition to establish the Poseidon Principles—a global, sectorwide and self-governing climate alignment agreement refining the role of banks in the maritime shipping sector—with the goal to seek decarbonization of this sector and a target was set for 50% absolute greenhouse gas reduction by 2050.

Collective action helps firms to overcome fears and incentives misaligned with change, such as the short-term reduction in profits that might ensue from long-term investments in efficiency, supply chain redundancy, employee compensation or reskilling or the research & development related to innovation. Coalition-driven change at scale can help break through such competitive stalemates, often times moving faster, more globally, and more efficiently than regulation.

GROWTH OF SUSTAINABLE INVESTING AND ESG INTEGRATION

Driven by both pursuit of performance and potential for impact, both institutional and retail investors have expressed increasing interest in sustainable solutions. Asset owners, intensely focused on delivery on return expectations, list meeting their fiduciary duty* as the top reason they take ESG into consideration—before stakeholder interest or aligning with organizational values—with 87% claiming it was "somewhat of a significant factor". And their beliefs have led to action, with more than half (57%) of institutions surveyed including language about their organizations' ESG priorities and principles in their investment policy statement.[5]

Asset managers have responded, with an increasingly sophisticated set of approaches that leverage ESG data. One yardstick of adoption, the PRI (Principles for Responsible Investment), requires signatories to incorporate ESG considerations into at least 50% of their assets under management (AUM) by the end of 2020, meaning at least $51 trillion of AUM will be ESG "aware" or "integrated." According to Morgan Stanley's Sustainable Signals May 2020 survey, this aligns with nearly nine out of 10 (88%) of asset managers reporting a high or moderate degree of priority on incorporating ESG into their investment processes. These practices, which can be broadly categorized as ESG integration, thematic and impact investing are often collectively referred to as Sustainable and Impact Investing.

With the matching of supply and demand, we have seen flows into sustainable investments outpacing their conventional peers. When we look forward, we see this trend continuing and fueled in part by the asset transition to younger and female investors, who have shown disproportionate interest. As one of the greatest intergenerational wealth transfers in history gets underway, baby boomers are expected to pass nearly $48 trillion in assets in the U.S. to their heirs and charities over the next 25 years, estimates Cerulli Associates. This jumps to $68.4 trillion transferred by U.S. households when including assets from Generation X. Women's wealth in the U.S. amounted to more than $35 trillion in 2019, and is expected to grow at a compound annual growth rate just shy of 7% out to 2023 according to Boston Consulting Group. With this level of money in motion, BofA Global Research anticipates flows of $20 trillion to sustainable funds over the next two decades

INVESTMENT IMPLICATIONS

The current environment looks to have magnified and accelerated *The Great Shift*, elevating ESG to the mainstream as business sustainability and responsibility become prioritized. With *The Great Shift* comes a meaningful evolution in the investment landscape—an opportunity to revisit sustainable investing with fresh eyes.

STRATEGIC PRIORITIES

Portfolio strategy in the coming years should allocate more capital to assets backed or underpinned by high sustainability, in our view. ESG-related assets have surged recently on the need to improve income inequality, promote diversity and address the challenges of climate change—accentuated by the pandemic. Moreover, structural dynamics like rising political pressure, regulatory change and technological advances are additional planks to sustainable investing and more capital reallocation. Doing well and good have become strategic priorities of many firms and the asset managers that invest in them. Those firms that are the most transparent about their goals, and are better at execution, will likely reward investors over the long-term.

This more assertive shift is transitioning across asset classes, capitalization structures, and international borders. Allocation decisions, both strategic and tactical, are already beginning

* Fiduciary standard: investment advisers are required to act in the best interest of their clients and not place their own interests ahead of their clients.

[5] The Cerulli Report, U.S. Environmental, Social and Governance Investing: Meeting Evolving Investor Expectations, 2019.

to infuse ESG or impact-related decisioning within core and custom asset schemas by various investor segments. In a "great shift", asset allocation is moving beyond just financial returns, risk-adjusted metrics and traditional benchmarks. Also at play: Sustainable investing.

For investors, we believe ESG is additive to the investment process, providing investors a set of additional factors to help identify market risks and potential opportunities.

- With the advent of better access to data and analytical tools, sustainable investment criteria seeks to offer a powerful way to evaluate risks and uncover potential opportunities in the market.

- For investors with defined motivations to drive positive environmental or social change with their investments, sustainable strategies may also provide solid building blocks for any portfolio. We believe that sustainable investments can be used to avoid exposure to companies that have not participated in *The Great Shift*, to broadly gain exposure to companies benefiting their stakeholders, and to help identify those companies on the forefront of the shift, innovating and transforming industries while contributing to a sustainable future.

- We identify opportunities for sustainable investment in both active* and passive* vehicles. Passive sustainable strategies may benefit from downside capture and present a less expensive option, while active strategies seek to enable managers to mine ESG data and surface firms with sustainable competitive advantages.

- The increased adoption of ESG into investment processes and the flow of capital oriented toward the SDGs will help accelerate existing thematic trends and create challenges for lagging companies and countries.

- Key opportunities exist in the transition to a lower carbon economy. As we highlighted in the CIO Investment Insights, *The Great Clash*, companies that embrace more climate-friendly business models and operations, as well as consumer products and services, are likely to enjoy sustained growth opportunities over the long-term. Key investment opportunities pivot around renewable energy (solar and wind), electrical vehicles, next-generation batteries, clean technology, energy-efficient electronics and building systems, water/waste management, among other areas.

- Infrastructure appears to be at the intersection of health and social equality (digital access, financial access and education access as well as good jobs). As we addressed in the CIO Investment Insights, The Great Reset August 2020, in the aftermath of the pandemic, consumers may evaluate how companies respond. We expect there will be a greater focus on health, renewable energy, clean water and sanitation, and other industries supporting a more sustainable future. A continued focus on the "social" in ESG for companies and countries is expected in a world after coronavirus.

- We have long believed that investors who incorporate sustainable investing may be better able to position their portfolios for long-term success, and with *The Great Shift* underway, this appears to be more poignant than ever. It's our belief that companies with stronger environmental, social and governance (ESG) factors and records tend to be stronger financially. Align with CIO asset allocation guidance and our tactical preference for equities over fixed income, large-caps relative to small-caps, and the U.S. relative to the rest of world, but consider companies which provide transparency in ESG progress to goals and managers with defined ESG investment approaches.

Index Definitions

Securities indexes assume reinvestment of all distributions and interest payments. Indexes are unmanaged and do not take into account fees or expenses. It is not possible to invest directly in an index.

Indexes are all based in dollars.

S&P 500 is a stock market index that measures the stock performance of 500 large companies listed on stock exchanges in the United States. It is one of the most commonly followed equity indices, and many consider it to be one of the best representations of the U.S. stock market.

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Impact investing and/or Environmental, Social and Governance (ESG) managers may take into consideration factors beyond traditional financial information to select securities, which could result in relative investment performance deviating from other strategies or broad market benchmarks, depending on whether such sectors or investments are in or out of favor in the market. Further, ESG strategies may rely on certain values based criteria to eliminate exposures found in similar strategies or broad market benchmarks, which could also result in relative investment performance deviating.

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