VALUE(S) MANAGEMENT AND INVESTING

WHAT IS ESG?

ENVIRONMENT = PHYSICAL

- **Natural resources:** Sourcing, use, contamination and depletion of energy, water, minerals
- **Surface issues:** Biodiversity, urban density, open space protection, noise/light pollution, demands on infrastructure, physical effects of climate change: floods, droughts, fires, hurricanes
- **Atmosphere:** GHG emissions/pollution, global warming, carbon management
- **Products:** Environmentally friendly, emissions reducing, low carbon

SOCIAL = PEOPLE

- **Employees:** Recruiting and retention, education and training, career development and promotion, diversity equity and inclusion, safety, privacy versus tracking and disclosing employee data, union issues, human rights/slave labor, bribery and corruption
- **Communities:** Local consultation and consent, local job creation, indigenous populations issues, impact on local infrastructure (roads, schools, zoning issues)
- **Customers:** Socially responsible products, reuse/recycling, accessible pricing, counterfeit control
- **Supply chain:** Oversight, 3rd party monitoring, providing data, diverse supply chain partners
- **Future generations:** Conservation, global warming, toxic waste management (all E topics too)

GOVERNANCE = STRUCTURE/PROCESS

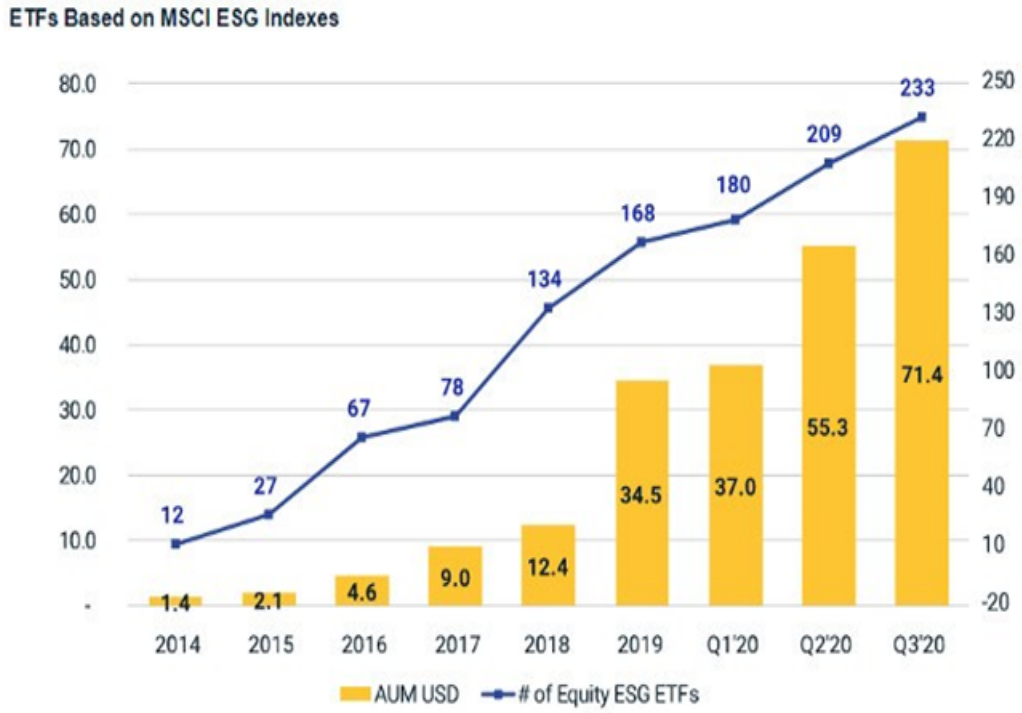
- **Who a company's investors are:** Active/passive, LT/ST, ESG screened, individual/institutional
- **How a company is structured:** Anti-takeover and voting provisions, C-Corp/PBC, public/private
- **How the company is governed:** Board composition, selection and governance; board, executive, director and employee compensation; disclosure practices; stakeholder and supply chain management; social purpose; shareholder/stakeholder engagement
- **How the company manages risk:** External and internal sources of board and executive information, compliance and audit programs
- **Regulators:** Political expenditures, tax fairness, working with law enforcement

FIVE REASONS ESG IS BECOMING MORE IMPORTANT

ONE: BECAUSE PUBLIC COMPANIES' SOURCES OF CAPITAL ARE CHANGING AND THE FASTEST GROWING SEGMENTS NEED ESG INFORMATION

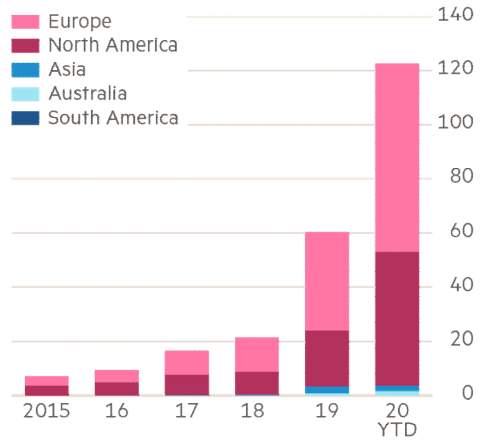
- JP Morgan data indicates that only 10% of institutional trading is done by traditional human-based professional active managers.
- **Flows into ESG-focused equities so far in 2021 are up 135% over the same period in 2020,** according to research from Bank of America, which says $62bn has moved into 'ESG' in recent weeks. $4 out of every $10 of 2021's global equities inflows - or 43% - are into 'ESG', says the report, released today. "Across equities and bonds, the 2,500 ESG funds we track have experienced inflows more than double the flows in the same time period last year," said the bank's researchers. In addition, 60% of ESG indices have outperformed their conventional peers so far this year.

- A November 2020 US SIF Foundation study—considered one of the most credible in the space reports that US assets invested with ESG criteria increased 42% in the last two years reaching $17B at the beginning of 2020. ESG assets now comprise a third of professionally managed assets, up from a quarter two years ago.
- MSCI reports in February 2021 that its ESG funds are growing faster than its index funds at a 30% a year rate
- A December 2020 MSCI report includes this graph showing the increase in ESG ETFs



Momentum: ESG ETF assets have doubled

ESG ETF AUM by region ($bn)



Sources: Morningstar; Morgan Stanley Research
© FT

- A 2019 BNP Paribas study of 350 global funds found that those that factor in ESG variables jumped from 53% in 2017 to 62% in 2019 and are projected to reach 90% in 2021.
- A 2019 Deloitte study said the $12T in ESG investing is expected to triple by 2025. (Opalesque "Deloitte: ESG-mandated assets on pace to account for 50% of all professionally managed assets by 2025" Feb 21, 2020
- $1.36T flowed into passive US equity mutual funds and ETFs in the last decade
- $1.32T flowed out of actively managed US equity funds in the same period
- Passive funds passed active ones in size in 2019[i] (Bloomberg 9/11/19 "End of Era: Passive Equity Funds Surpass Active in Epic Shift")
- US ESG AUM grew from $8.7T in 2016 to $12T in 2018[ii]
- Net inflows to passive ESG funds outpaced those actively managed ones in 4 of the last 5 years[iii]
- 40% of hedge funds surveyed by BNP Paribas report using ESG factors in investing decisions
- U.S. Trust predicts $20T in ESG funds in 20 years; increase from 15% to 57% in Europe in 6 years
- Family offices—duration capital seeking long-term investments—grew 10x in 10 years and 3x in 2 years, equaling $9.4T in 2019[iv]
- Individual investors—many ESG-influenced—made 19.5% of equity trades in 1H 2020
    - Millennials own 7% of total US wealth
    - According to the Federal Reserve, American households bought roughly $211 billion in individual stocks in 2020 — the highest level since 2014.
    - "Retail trading now accounts for almost as much volume as mutual funds and hedge funds combined," Amelia Garnett, an executive at Goldman Sachs's Global Markets Division
    - 5% of investable assets are passed down every 5 years, predicted to double between 2036 and 2040 as boomers die. Millennials will inherit $22T by 2042
    - Missing platform-based outreach is a mistake. Mediant now enables voting by Alexa; Clubhouse enables individual investor town halls; Say Technologies enables direct communication with verified holders
    - A group called Interactive Investor is encouraging them. https://www.ii.co.uk/analysis-commentary/conditions-are-ripe-esg-retail-shareholder-spring-ii51563 This movement combined with more institutional investors disclosing voting decisions in advance or making them available on platforms or via ESG wolfpack formation, is yet another reason this may be an interesting proxy voting season.
- **Bill Ackman the ESG activist?** Activist investor Bill Ackman, the CEO of the $13 billion hedge fund Pershing Square Capital, made a case that capitalism is "the most powerful potential source" for solving society's biggest challenges — and ESG investing is ushering in that change. Ackman says he now uses ESG filters to pick investments and that Pershing Square has made mistakes in the past where it "failed to fully consider certain ESG shortcomings in a company's approach to business." yahoo.com

BECAUSE COMPANIES' ABILTY TO WIN VOTES (and CEO tenure) DEPENDS ON IT

- **A study based on RepRisk data** has revealed a causal relationship between extreme ESG risk exposure and CEO turnover. When companies scored more than 60 on RepRisk's reputational risk scale - indicating severe negative media attention on ESG issues, CEOs were more likely to be fired in the following year.

- Climate-related shareholder proposals up; through the end of February, 79 climate-related shareholder proposals had already been filed, compared with 72 in all of 2020 and 67 in 2019; on track for ~90 proposals in 2021, a record year.
- **The first say-on-climate vote this year won 95% backing at Nestle's AGM**
- **BLK votes against director on climate grounds.** At the annual meeting on Thursday for Woodside Petroleum, BlackRock voted against one of the company's board members to protest its lack of climate change disclosures. BlackRock said Woodside did not publish reduction targets for scope 3 emissions, which include all of a company's total and indirect carbon output. As a result of the omission, BlackRock voted against board member **Christopher Haynes**, the longest-serving independent director up for a vote at the company. Earlier this month, BlackRock also voted for a shareholder proposal at Vinci, a French construction company, calling for a clear road map toward climate change targets.
- At US aerospace firm TransDigm, **BlackRock voted against the reelection of six directors over concerns around climate and pay.**
- **Zurich will vote against directors on climate grounds** if the results of engagements are not satisfactory
- DEI voting changes summary for 2021 from Alliance Advisors: ISS:•2020:ISS began recommending against the chair of the nominating committee at S&P 1500 and Russell 3000 firms if there were no women on the board, absent mitigating factors. •2021: ISS will flag in its reports S&P 1500 and Russell 3000 boards that have no apparent racial or ethnic diversity.•2022:ISS will recommend against the chair of the nominating committee at S&P 1500 and Russell 3000 firms that have no racially/ethnically diverse directors.
- **Calvert raises diversity thresholds for boards: "**Globally, Calvert will vote against the nominating committees of companies that have fewer than two women on the board. Previously, we voted against the nomination of directors for company boards that lacked representation of women.
- In addition, for companies in the United States, United Kingdom, Australia and Canada, Calvert will vote against the nominating committee at companies that have fewer than two people of color or are less than 40% diverse
- Glass Lewis:•2019:Glass Lewis began recommending against the chair of the nominating committee at S&P 1500 and Russell 3000 firms if there were no women on the board, absent mitigating factors. •2021:Glass Lewis will note as a concern in its reports boards that have less than two female directors. It will assess S&P 500 companies on their board diversity practices, including the percentage of directors who come from racially or ethnically diverse backgrounds. Though the assessment may play into voting recommendations where other board-related concerns exist, it will not be the sole factor. Glass Lewis's recommendations will also adhere to applicable state laws on board diversity as they come into effect.•2022:Glass Lewis will recommend against the chair of the nominating committee at Russell 3000 firms that do not have at least two female directors, absent mitigating factors.
- SSGA:•2017:SSGA began voting against the chair of the nominating committee if there were no women on the board. •2020:SSGA began voting against all members of the nominating committee if there were no women on the board and the company had not engaged SSGA successfully for three consecutive years.•2021: SSGA will vote against the chair of the nominating committee at S&P 500 and FTSE 100 companies that do not disclose the gender,

racial and ethnic composition of their boards.•2022: SSGA will vote against the chair of the nominating committee at S&P 500 and FTSE 100 firms that do not have at least one director from an "underrepresented community."

- Fidelity:•2021:Fidelity will begin voting against certain or all directors if there are no women on the board or, in the case of boards with 10 or more members, if there are fewer than two female directors.
- Vanguard: Vanguard is opposed to quotas, which it believes can be counter-productive.•2021:Vanguard may vote against the chair of the nominating committee or other relevant directors at companies where progress on board diversity falls behind market norms and expectations. Most at risk are companies with no gender or racial/ethnic diversity or that lack a board diversity policy and disclosure.
- Goldman Sachs Asset Management(GSAM): •2020:GSAM began voting against all members of the nominating committee at any company globally that had no female directors.•2021: GSAM will vote against the entire board at any U.S. company with no female directors. It will vote against all members of the nominating committee at U.S. companies that do not have at least one female director and one additional diverse director based on gender identity, sexual orientation and racial or ethnic background. A board with two white women would meet the standard.
- **As big shareholders become more willing to use their director votes, more ESG activists run just vote no campaigns against individual board members.** Majority Action is placing phone calls to big shareholders regarding its just-vote-no campaigns at companies like Valero, and the calls are being taken. PIRC has joined Majority Action to call for votes against directors at Duke Energy.
- Similarly, labor union ESG activist Change to Win Investment Group is urging Geo Group's shareholders to vote against five directors on the company's nine-member board at their April 28th meeting, as it criticized the prison REIT for failing to stop human rights violations at its facilities. (Labor unions don't like private prisons as they are viewed as taking away unionized jobs from governmental prisons.)
- These are examples of ESG wolfpacks
- **Twice the say on pay votes get less than 70% so far this season.** About 1 in 6 companies holding shareholder votes since Sept. 1 have gotten less than 70% support for say-on-pay votes, according to an analysis of S&P 500 companies by Equilar. Among the same companies last year, by contrast, about 1 in 12 had such stiff opposition.
- **Companies should drive long-term performance** by **replacing existing short-term executive pay packages with longer-term remuneration plans,** according to new research from non-profit FCLT Global the association of some of the world's largest shareholders. The research found that the average duration of executive compensation plans for CEOs of the MSCI All Country World Index was just 1.7 years. It recommended that provisions that drive short-term behavior, such as large, one-off moments of financial reward, should be replaced.

Use of ESG Targets in Executive Compensation by GICs Industry Sector

Metric	% of S&P 500	Usage by industry	
		Highest	Lowest
People/Human Resources	32%	Financials (46%)	Consumer Discretionary (16%)
Customer service metrics	21%	Utilities (72%)	Energy (0%)
Diversity & Inclusion	18%	Consumer Staples (39%)	Consumer Discretionary (3%)
Employee health and safety	16%	Energy (83%)	Communications and Financials (0%)
Environmental & Sustainability	14%	Energy (67%)	Health Care (0%)
Governance	14%	Real Estate (31%)	Utilities (3%)

- ESG factors increasingly the basis for investment blacklisting. Yale the most recent looking to dump fossil fuel stocks
- Universal proxy is coming—comment period open—will reduce activism costs significantly
- **Excerpts of summary of climate change shifts by investors and proxy advisors.** From Corporate Counsel's summary of SquareWell Partners' analysis of how proxy advisors and investors are addressing climate change:
  - ISS and Glass Lewis supported 68% and 47% of climate-related shareholder during the period under review
  - 7/ 30 asset managers have disclosed a policy on **divestment** from companies that negatively contribute to climate change.
  - 13/30 asset managers either reference climate change as a relevant factor in its evaluation of director elections or have provided a climate-related concern as a rationale for voting against directors up for election.
  - 15/30 asset managers have incorporated sustainability considerations, including climate change, into their evaluation of executive pay frameworks.
  - 29/30 asset managers disclose a general **framework for evaluating climate change-related shareholder proposals**.
- Getting directors re-elected now depends on it: State Street announces policy to vote, starting in 2022, "against" comp committee chairs at S&P 500 companies that don't disclose workforce EEO-1 data and "against" nominating committee chairs at S&P 500 and FTSE 100 companies that don't have at least one director from an underrepresented group. BLK will vote against directors where E actions/disclosures insufficient
- Winning SOP depends on it: ISS against rate on say-on-pay down nearly half (to about 7%) in early proxy season; shareholders have voted down say-on-pay proposals at >2x the 2020 rate.

TWO: BECAUSE EVEN TRADITIONAL ASSET MANAGERS NOW NEED ESG INFORMATION

- **In Nov 2020 Morningstar announced it will integrate ESG into all of its investment analysis**
- **T Rowe Price** announced in Jan 2021 it is applying ESG analysis to nearly all its investments
- **SSga, Invesco, Fidelity, NTRS, AXA, Allianz, UBS, TRowe Price and others** have or are developing internal ESG rankings for investment purposes

- **98% of investors evaluate non-financial information**—this includes traditional active managers who use AI to expand the variables they evaluate as data cumulates showing many ESG variables are good performance indicators:[v]
  - The Morgan Stanley Institute for Sustainable Investing reports there is "no financial trade-off in the returns of sustainable funds compared to traditional funds, and they demonstrate lower downside risk"[1]
  - **22 of 23 sustainable index funds** surveyed by Morningstar outperformed their relevant conventional indexes in 2020. Morningstar's Sustainable Fund Landscape Report issued in March 2021 also found that 52 of Morningstar's 69 ESG-screened indexes outperformed their broad market equivalents, and that ESG indices outperformed over the last five years, and lost less than their conventional counterparts during market downturns.
  - **In 2020, US sustainable equity funds** outperformed their traditional peers by 4.3%, according to a report by Morgan Stanley. Sustainable bond funds outperformed their peers by 0.9%, and both bond and equity funds were less volatile than their 'non-sustainable' counterparts. Equity funds' median downside deviation was 3.1% less than traditional funds, while bond funds' median downside deviation was 0.4% less.
  - According to Goldman Sachs data published in Nov 2020, Since the start of 2012, companies in the MSCI ACWI Index that are in the top quintile of E&S scores produced an annualized return of 11%, compared with 8% for companies in the bottom quintile.
  - FCLT Global data links returns to factors like board and NEO diversity
  - Invisage data (11/20) documents that large tech firms with higher ESG scores outperform lower-scoring peers. Survey was of largest 200 and covered 10 years
  - *Bloomberg Intelligence* data shows that companies that have the same person serving as both chairman and chief executive typically lag peers with independent chairs by ~80 basis points in ROA, and companies whose directors are steadily refreshed outperform peers with less steady turnover
  - Companies with the highest cyber security ratings (from BitSight) outperform peers by 1%-2% annually on average but a7% annually for the tech sector
  - Bank of America data shows[2]:
  - **Flows into ESG-focused equities so far this year are up 135% over the same period in 2020,** according to research from Bank of America, which says $62bn has moved into 'ESG' in recent weeks. $4 out of every $10 of 2021's global equities inflows - or 43% - are into 'ESG', says the report, released today. "Across equities and bonds, the 2,500 ESG funds we track have experienced inflows more than double the flows in the same time period last year," said the bank's researchers. In addition, 60% of ESG indices have outperformed their conventional peers so far this year.
    - A strategy of buying stocks with good ESG scores would have outperformed the market by up to 3 percentage points per year over the last 5 years
    - Intangible assets tied to reputation, brand and intellectual property that require ESG analysis have reached record highs within S&P 500 companies
    - Companies with high employee satisfaction ratings on Glassdoor outperform low ranking peers by nearly 5 percentage points per year over the past 6 years

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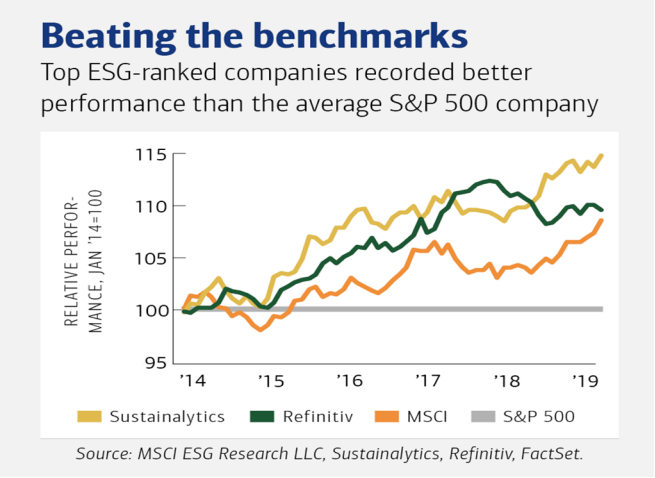
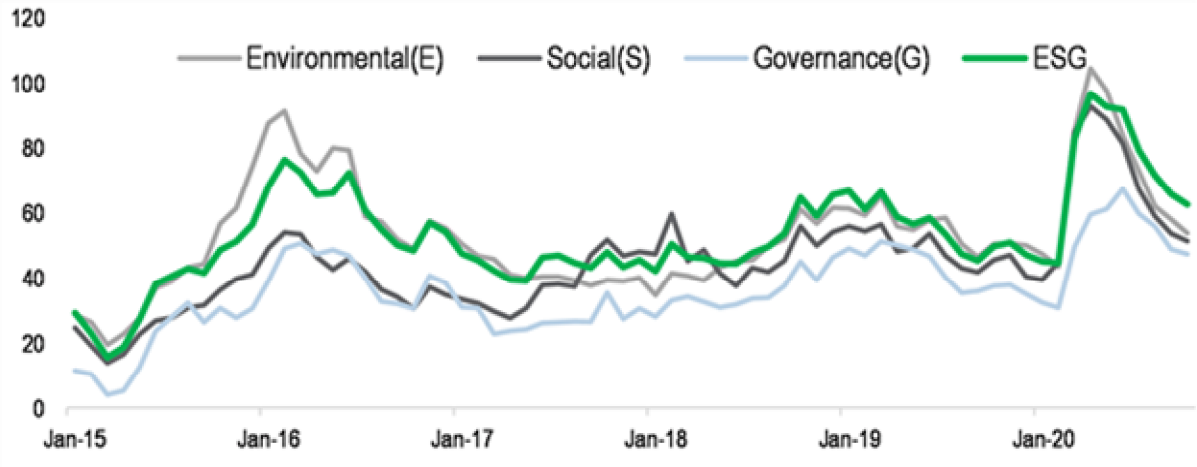
- ESG scores are a better signal of future earnings volatility than traditional financial metrics, such as earnings quality, leverage and profitability
- The cost of debt for "good" versus "bad" companies based on ESG scores can be nearly 2 full percentage points lower



- Asset Managers are graded on the ESG profiles of their portfolios, which affects asset flows so managers are voting against managements' recommendations more often. Most rely on third parties for their ESG information

THREE: BECAUSE INVESTORS AREN'T THE ONLY ONES REQUIRING MORE ESG INFORMATION

- Fixed income is a rapidly increasing source of ESG pressures.
  - The debt market is larger than the equity market so a better driver
  - Denying debt has a more immediate impact than not investing
  - Debt divestments are much easier than equity divestments—less worry about diversification impact
  - JPMorgan Chase expects Sustainability-Linked Bonds (SLBs) to grow from $6.9B (1Q 2021 actual) to $100-$130B by the end of 2021 as more companies seek ways to demonstrate their commitment to ESG.
  - However denying debt has implications for holders who also own equity
- 

- Banks and insurers increasingly ask ESG questions before lending or insuring or including companies in their investment portfolios (Credit Suisse and LSTA ESG questionnaires)
- ESG profiles can affect the terms lenders offer, with better terms tied to better ESG results
- Banks are now ranked in league tables on the sustainability of their finance practices
- Credit rating agencies use ESG metrics and offer ESG scoring products Moody's reported in November 2020 that ESG factors are now material in 50% of its public company ratings
- Tax decisions have ESG implications: NYT article on BMY. and **Efforts to increase companies' global tax disclosures continue. Danone has signed up to Responsible Tax principles** set out by Sir Richard Branson's non-profit, The B Team. Maersk, Shell and Unilever have also endorsed the principles, which are designed to establish best tax practices across sectors and regions. As part of the commitment, Danone has started reporting on its yearly tax contribution on a worldwide basis.
- Customers are willing to pay more for some sustainably-produced products and services
- Company ESG profiles influence some recruits willingness to accept job offers
- Digital capabilities are enabling companies to assess their employees' efficiency, morale, loyalty, etc. on a daily basis, learning in the process which HR variables are most performance predictive
- Some employees file shareholder proposals against their own managements on ESG topics (Amazon) or object to corporate actions (Simon and Schuster) or boycott (Facebook)
- ESG is becoming fodder for more lawsuits, including at least 7 alleging company's diversity statements are misleading or fraudulent and an increasing number targeting environmental topics:
    - *The Economist,* November 21, 2020: In 2018, ClientEarth bought €30-worth ($36) of shares in Enea, a Polish power company, and later sued over the firm's plan to build Ostroleka C, dubbed "the last coal unit ever to be built in Poland". The NGO argued that the decarbonisation of the energy sector would make Ostroleka C an unprofitable stranded asset, creating an "indefensible" financial risk. The Polish courts ruled in ClientEarth's favour last year, and the project has been abandoned—a powerful precedent.
    - The Teamsters have sued nine McDonald's board members in Delaware's Chancery Court, accusing them of breaching their fiduciary duty when they allowed former McDonald's CEO Stephen Easterbrook to waltz off with a separation package purportedly worth $56 million after being fired for having an improper relationship with a subordinate. The derivative lawsuit accuses certain board members of actively choosing to pay Easterbrook off in hopes of sweeping his misconduct under the rug rather than "face the consequences for the leniency they long exhibited."

- Integrated reporting is coming so the finance side of the house has to be involved SEC Corp Fin Acting Director calls for global ESG reporting framework; cites IFRS Foundation as potentially the right organizing framework, which is part of seeming larger Biden administration support for ESG initiatives.
- **A third of businesses have, or plan to introduce, an internal carbon price** - an increase of 80% over the last five years.
- ESG has invaded the comp world: ESG in compensation: ESG metrics, including diversity measures, climate change goals (including those based on science-based targets), and employee engagement are showing up in large-cap compensation programs at an increased rate.

According to Farient, 2020 was the tipping-point year where more than 50% adopted ESG in exec comp.

- Companies that pay the CEO (or other highest paid executive) 50 times more than the companies' median workers could see their taxes increase .5% if a proposal called the Tax Excessive CEO Pay Act is added to the pending infrastructure bill. Companies paying at least 500 times more than employees would have the highest tax rates. If corporations keep paying executives at the same rates, the federal government estimates the bill would raise $150 billion in revenue over the next 10 years.
- **ESG issues continue to spread to other areas—now patents.** In the modern era, ESG issues were more frequently seen as shareholder issues. They continue to spread to influence fixed income, banking, insuring, recruiting, supply chain management, core corporate liability and purpose issues, etc. There is now an effort to collect more data on diversity bias in the patent sector: a bipartisan coalition of U.S. senators and representatives reintroduced the Inventor Diversity for Economic Advancement, or IDEA, Act which is designed to collect demographic data from patent applicants to narrow the gender and diversity gap of inventors named on patents. According to the U.S. Patent and Trademark Office, in 2016, fewer than 12% of patent inventors in the U.S. were women. The gap does not only affect female inventors — African American and Hispanic college graduates apply for patents at significantly lower rates than their colleagues…The Yale School of Management found that applications from inventors with typically female names had a lower chance of getting their patents approved than applications from inventors whose names did not reveal their gender.[5] Law360 (April 15, 2021, 7:02 PM EDT)

FOUR: BECAUSE MOST COMPANIES HAVE A RELATIVELY LOW PERCENTAGE OF THESE RAPIDLY GROWING POOLS OF INVESTMENT MONEY, THE OPPORTUNITY TO ADD IS SUBSTANTIAL

FIVE: BECAUSE ESG MANAGEMENT IS MORE CRITICAL TO ACTIVISM PREPAREDNESS AND DEFENSE

- The 20 largest global investors hold more than half of all professionally managed money making activism much easier and cheaper. (From The Thinking Ahead Institute 11/2020)
- Activists increasingly use ESG criticisms of companies to gain shareholders' support since an increasing percentage of the market is comprised of ESG-focused investors
- Companies that seek ESG-screened and duration capital help create activism vaccines for themselves as these long-focused shareholders typically do not support activist flipping

WHO DECIDES WHAT IS CONSIDERED GOOD AND BAD FOR ESG PURPOSES?

- Many third-party purveyors have sprung up to fill rising demand for ESG information
- 3 of the 650+ purveyors dominate the market: Institutional Shareholder Services (ISS) for governance and Sustainalytics and MSCI for environmental and social information
    - ISS dominates the governance analysis market in the US and is a significant player globally having bought up numerous competitors
        - ISS analysis and scores influence proxy voting more than MSCI/Sustainalytics
    - MSCI is bought by 48 of the 50 largest global asset managers
        - MSCI ESG research is used to create over 1,500 MSCI ESG Indexes, linked in 2019 to $37.2 billion in ETFs
        - MSCI scores directly affect capital flows to many companies

- Sustainalytics is included in Glass Lewis reports, on Yahoo! Finance and Bloomberg
    - Even major funds doing ESG analysis in-house (State Street, NTRS, T. Rowe Price, etc.) use data feeds from these aggregators
    - A 4th entity, Glass Lewis, is also used for governance information and is estimated to influence 2% of the US vote versus 20% for ISS
- The 3 main credit rating agencies may become larger ESG players as they roll out products
- There are also numerous *frameworks* that do not give grades but that companies use to help identify which ESG topics to address and how to arrange their disclosures
    - Currently two frameworks matter most:
        - Sustainability Accounting Standards Board (SASB) which provides sector-specific lists of ESG variables for companies to address
        - The Task Force on Climate-related Disclosures (TCFD) which is a list of 11 climate-related topics against which companies are expected to disclose
    - But it is thought that the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB) may ultimately become the entity that tries to bring order to these various competing frameworks and scorecards

HOW CAN COMPANIES ATTRACT MORE DURATION CAPITAL FROM INDEX, ESG AND OTHER LONG-FOCUSED FUNDS?

ONE: UPDATE OUTWARD FACING *PRACTICES* TO BENEFIT FROM CHANGING MARKET MIX

- Update IR practices to reach growing investor segments
    - Index funds, ESG screened funds and duration investors don't generate commissions and can be overlooked by broker/bank-led roadshows
    - Individual investors are increasingly reachable via technology
        - With cost of investing $100 dropping from $6 to pennies from 1975 to 2020 and with more investing done directly through platforms, individual investors can increasingly be cost effectively courted
- Update investor interactions to take advantage of digital possibilities
    - Interactive "documents" like proxy statements:
        - Track access to understand who reads what
        - Use chat boxes, etc. to be interactive
        - Use platforms like Say Technologies to reach investors directly
        - Move from written to audio/visual website ("Alexa: What is COMPANY's ROE each of the last 5 years?")
- Use director selection process to better attract long-term capital
    - Family office or impact fund CIOs
    - PMs of major well regarded asset managers (why CFOs but not CFAs on boards?)

TWO: UPDATE INVESTOR *CONTENT* TO REFLECT MARKET SHIFTS AND SCORECARD NEEDS

- Create messaging specifically designed for long-term shareholders (not ESG puffery)
- Focus on how ESG drivers drive financial performance
- Avoid exclusive focus of removing ESG negatives
- Update traditional (IR) disclosures to better integrate multi-year themes, drivers and stories and address any significant ESG negatives

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- Investors beginning to realize it is much easier to fake good works than good performance and suspicions over greenwashing and green hoping are rising—requiring better issuer disclosures
- SEC is likely to mandate more ESG disclosures under Biden

THREE: UNDERSTAND ESG VULNERABILITIES

- Monitor and address ESG vulnerabilities such as:
  - Directors serving more than 15 years
  - Directors over age 75
  - Fewer than 30% female directors
  - No racially diverse directors
  - Noisy director withdrawal
  - Directors who receive less than 90% of votes cast
  - Directors who receive less than 70% votes cast on any board on which they serve
  - Directors with ESG negatives at their day jobs or on other boards
  - SOP or stock plan authorization votes lower than 80%
  - Shareholder proposals that receive overwhelming support
  - Multiple connections between directors (same schools, service at other companies)

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[i] John Gittelsohn, *End of Era: Passive Equity Funds Surpass Active in Epic Shift,* Bloomberg, Sept 11, 2019
[ii] US SIF Foundation, *Report on US Sustainable, Responsible and Impact Investing Trends,* 2018
[iii] US SIF Foundation, *Report on US Sustainable, Responsible and Impact Investing Trends,* 2018.
[iv] Data from Campden Research
[v] Matthew Nelson, *How will ESG performance shape your future?,* E&Y, July 2020