Fisher Investments Institutional Group

Fisher Investments Europe

Fisher Investments Japan

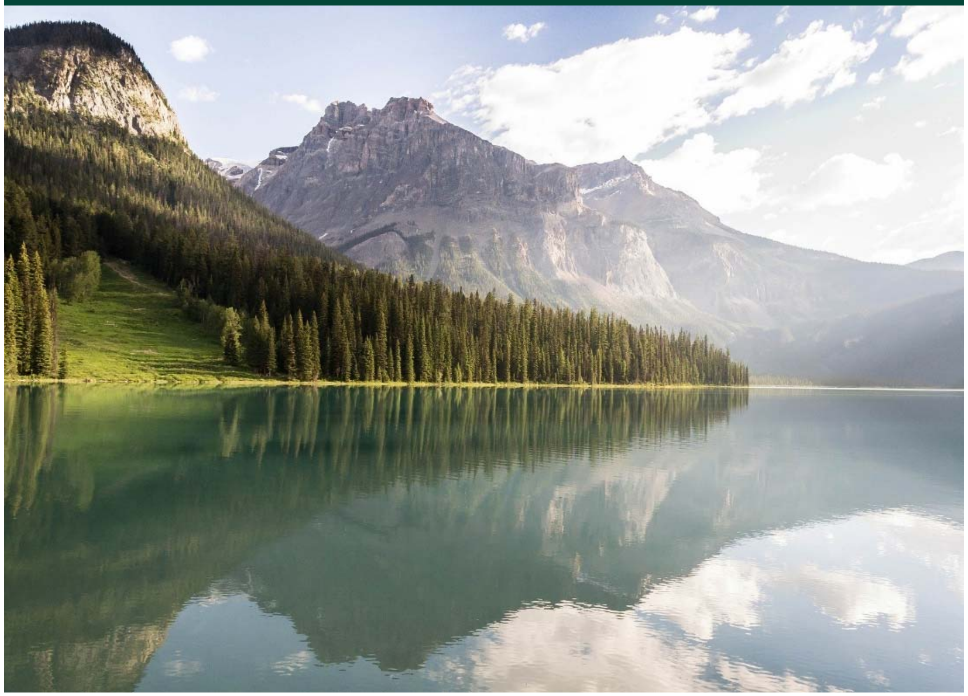
Fisher Investments Australasia

# ESG
## PERSPECTIVES NEWSLETTER

FISHER INVESTMENTS | 2020

# ESG PHILOSOPHY STATEMENT

We believe ESG investors are best served by an investment process that considers both top-down and bottom-up factors. Integrating ESG analysis at the country, sector and stock levels consistent with clients' investment goals and ESG policies maximizes the likelihood of achieving desired performance and improving environmental and social conditions worldwide.





*Designed by Mason Evans*
*Materials Production Team Associate*

# 2020 ESG PROGRAM AT A GLANCE

# FISHER INVESTMENTS' 2020 UNPRI SCORE UPDATE

*Rachael Green*
*RFP Team Associate*

## FISHER INVESTMENTS 2020 UNPRI SCORE UPDATE

The UN Principles for Responsible Investment (PRI) is an organization dedicated to promoting environmental and socially responsible investing among the world's investors. The PRI produces a reporting framework for companies to complete enabling us to track our investment practices and see how we compare to global peers. As a PRI signatory, we received the following PRI scores, across three modules for 2020:

### 1. Strategy & Governance *(Score: A+)*

Overall approach to internal governance and ESG policies

### 2. Incorporation *(Score: A+)*

Incorporation of ESG issues within internally managed listed equity holdings

### 3. Active Ownership *(Score: A)*

Engagement and proxy voting activities

FI became a PRI signatory May of 2014, and since then has improved our scores tremendously, thanks in part to the work of FI's Responsible Investments Committee and FI's increased focus on ESG/SRI and Sustainability considerations. Overall, we are a full score ahead of peers in each of the three categories. FI believes these high PRI scores give us a very competitive edge in the ESG market and reflect years of continued progress.

### SUMMARY OF FI's 2020 SCORES

| Module Name | Fisher's Score | Median Score |
|---|---|---|
| Strategy & Governance | A+ | D A A+ |
| Incorporation | A+ | D A A+ |
| Active Ownership | A | D B A+ |

### FI's HISTORIC PRI SCORES

| Module | 2020 | 2019 | 2018 | 2017 |
|---|---|---|---|---|
| Strategy & Governance | A+ | A+ | A | B |
| Incorporation | A+ | A+ | A+ | B |
| Active Ownership | A | B | A | D |

## NEW & CONTINUED SUCCESSES

Our primary achievement during the 2020 reporting cycle was improving our Active Ownership module score from "B" to "A".

2020 Key Improvements:

- Developing a protocol for post-engagement communications.
- Adding ESG specific meeting goals for Securities Research Analysts during annual update meetings.
- Publically disclosing our proxy voting report and our engagement approach on our Institutional website.
- Leading a collaborative engagement.

Our assessment and transparency reports can be found on the PRI website. Further, we are able to provide copies of the reports, if requested.

## ESG ORGANIZATIONAL SUPPORT

We are a United Nations Principal for Responsible Investment Signatory, support the U.K. Stewardship Code and are a signatory of the Japanese Stewardship Code.

PRI Principles for Responsible Investment

THE UK STEWARDSHIP CODE

Japanese Stewardship Code

- **UN Global Compact Participant:** The UN Global Compact is a voluntary initiative based on company commitments to implement universal sustainability principles and to undertake partnerships in support of UN goals.
- **CDP Signatory:** CDP runs the global environmental disclosure system. Each year CDP supports thousands of companies, cities, states and regions to measure and manage their risks and opportunities on climate change, water security and deforestation.
- **Climate Action 100 Signatory:** Climate Action 100 is an investor initiative to ensure the world's largest corporate greenhouse gas emitters take action on climate change. The companies include 100 'systemically important emitters', accounting for two-thirds of annual global industrial emissions, in addition to 60 companies with high opportunity to promote clean energy.
- **Task Force on Climate-related Financial Disclosure (TCFD) Supporter:** The FSB TCFD creates voluntary, consistent climate-related financial risk disclosures for firms to provide for investors, lenders, insurers, and other stakeholders.
- **Conservation International Supporter and Emerald Circle Member:** Conservation International works to highlight the critical opportunities that nature provides to humanity. They work to protect more than 2.3 million square miles of land and sea across 70+ countries.

# DIVERSITY & INCLUSION AT FISHER INVESTMENTS

# DIVERSITY & INCLUSION AT FISHER INVESTMENTS

*Justin Arbuckle*
*Senior Executive Vice President of Institutional, FIE*
*Director, Portfolio Specialist*

I'm proud to say we've made great progress towards our commitment to becoming an industry diversity and inclusion leader, but there is, of course, much more work to do.

This is a multi-year effort and we are not going to accomplish everything at once, but we are committed to building the foundation now and making consistent progress along the way.

To succeed as an organization, we must have an inclusive culture, actively developing and supporting diversity where all feel welcome and supported. Embodying these values is crucial to our vision, culture and success. A culture that celebrates and encourages diversity will allow each employee to build a lifelong career here and will help us to better the investment universe.

In October of last year, our firm created a Diversity & Inclusion (D&I) taskforce which examines all aspects of D&I at Fisher. The taskforce has diverse representation across the firm and is lead by Jill Hitchcock–Senior Executive Vice President, US Private Client Group; Lane Jarvis–Executive Vice President, Global Human Capital; Carrianne Coffey–Senior Executive Vice President, Private Client Group International, FIE Chairperson and Marc Seymer–Executive Vice President, Corporate Finance. The members of the taskforce were distilled down from 300 volunteers to 29 people split across our Washington, California, Texas, London, Germany, Dublin and Luxembourg offices.

## FISHER INVESTMENTS DIVERSTIY & INCLUSION VISION

***To succeed, we must have an inclusive culture, actively developing and supporting diversity across the vast spectrum of human differences, creating a place of authentic belonging for all.***

## FISHER DIVERSITY & INCLUSION TASKFORCE LEADERSHIP

*Jill Hitchcock*
*Senior Executive Vice President, US Private Client Group*

*"I am passionate about co-leading our D&I work because of the opportunity to impact our employees, our clients and our industry. Our work helps employees build lifelong careers, benefits clients through the diversity of thought and perspectives, and helps change our industry. I am proud to tell my sons that I am co-leading this work."*

*Lane Jarvis*
*Executive Vice President, Global Human Capital*

*"At Fisher, expanding our diversity and inclusion initiatives is a necessary part of our cultural growth and one that we embrace. I've spent my career focused on creating meaningful and great places to work for all. I know what it feels like to be the only woman in the room or in a conversation, I know what it's like to have my expertise overlooked, and I vow to always support and mentor women and people who may have the same experiences. I am committed to push organizations out of their comfort zones and into new spaces that open up greater opportunities."*

*Carrianne Coffey*
*Senior Executive Vice President, Private Client Group International, FIE Chairperson*

*"The best possible outcome of any Diversity & Inclusion effort is to create a sense of belonging for each and every employee. It is critical that employees are not only allowed to be who they are but we celebrate and value employees for being their authentic selves. As a member of the LGBTQ community, that is something I have sought to do since the day I started at Fisher 20 years ago and what I seek to do now as a Co-Leader of our D&I Task Force. Being intentional about how we get there makes that journey even more powerful."*

*Marc Seymer*
*Executive Vice President, Corporate Finance*

*"I was raised by a single mother and witnessed areas she struggled with as I was growing up. I learned many lessons from my mother and her experiences in the workplace. As a father of two daughters, I continue to be passionate about change to ensure my children are not exposed to those same struggles. FI's commitment to D&I provides me confidence that we are impacting change, moving in the right direction and creating a workplace where all can be their true self with a sense of authentic belonging."*

## ROAD MAP FOR 2020

Our D&I initiatives will be an ongoing and continuous set of plans and goals, influenced by learning, challenges, and successes along the way. We are now ready to embark on the first steps of our D&I roadmap and are prioritizing foundational initiatives that can be built on over the coming months and years.

Our short term road map includes the following components:

### Firm Commitment

- Add D&I statement to Firm Vision
- Add *Valuing Differences* to core competency profile

### Training

- Develop & Deliver Inclusive Leadership training to all managers and individual contributors
- EVPs + above have personal development plans based on their Inclusive Leadership Assessments

### Identify a Benchmark

- Identify an appropriate financial services benchmark against which we can evaluate our progress

### Recruiting

- Create a D&I page on our Careers website to highlight importance and resources to candidates
- Develop a Diversity Recruitment Strategy to broaden the top of the funnel

### Define Metrics for success

- Define metrics and ways to evaluate our progress
- Establish cadence for benchmark, employee survey and measurement

### Employee Resources

- Create governance structure for pilot Affinity Group program
- Reinforce policy about how to elevate issues or concerns
- Provide additional education on employee benefits

### Communication

- Create a D&I page on intranet to provide resources, communication and education to employees
- Provide quarterly updates on progress and areas of focus

### Education & Celebrations

- Create a program to recognize and celebrate broader range of holidays
- Celebrations to be accompanied by educational resources for employees

## FISHER INVESTMENTS INSTITUTIONAL GROUP DIVERSITY & INCLUSION TASK FORCE

*Devan Williams*
*Portfolio Analytics Associate*

*"Diversity creates a culture of creative and forward thinking"*

*Zoe Abbott Boyd*
*ESG Program Manager*

*"A lack of diversity doesn't just put your portfolio at risk"*

*Jeremy Ayres*
*Client Operations Manager*

*"Diversity shapes our future and pushes us forward"*

In addition to the initiatives happening at the firm level, the institutional group decided to conduct our own D&I tours in order to listen to employees and figure out what we can do to support our people and create a more inclusive group culture outside of the firm's D&I goals and objectives.

We felt that the global nature of the institutional group—with offices spanning Texas, Washington, California, London, Tokyo, Dubai and Sydney offered a significant opportunity to gain an understanding of how different cultures approached diversity topics.

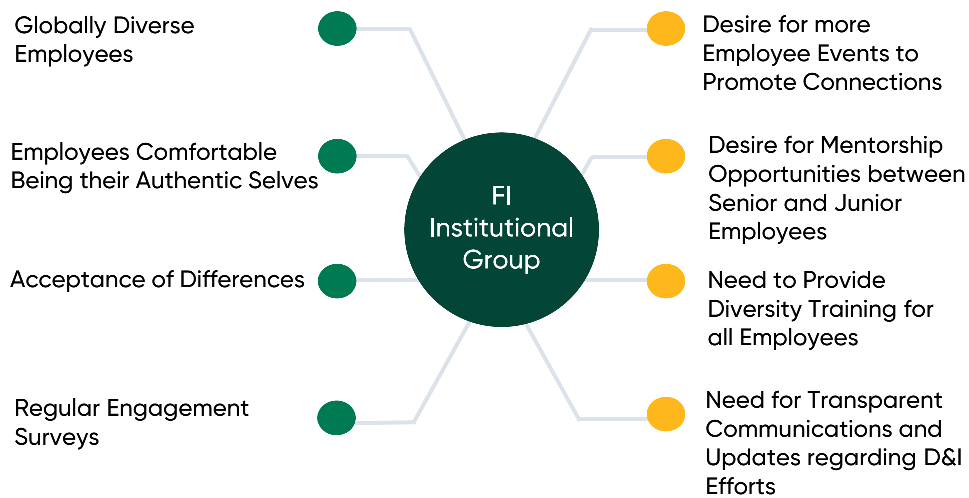
## INSTITUTIONAL D&I LISTENING TOUR

To gather feedback and understand how institutional employees feel about D&I, we conducted 8 institutional specific listening tours across our institutional offices:

From left to right: Washington, California, Texas, London & Tokyo

A globally diverse employee base and clientele within the Institutional group gives us additional exposure to diversity. Institutional employees highlighted many existing strengths and opportunities for improvements:

**STRENGTHS** **AREAS FOR IMPROVEMENT**




Much of the feedback from Institutional employees was consistent with employee feedback from across the organization, and the firm D&I roadmap will address many of these areas for improvement. Institutional leadership will continue to work closely with the Taskforce to support and execute roadmap initiatives within the Institutional group.

# FISHER INVESTMENTS TOP DOWN ESG RESEARCH

# HOW CLOUD COMPUTING SUPPORTS ESG INVESTORS' GLOBAL CLIMATE GOALS

*Matt Simpson*
*Research Analyst – Capital Markets*

## HOW CLOUD COMPUTING SUPPORTS ESG INVESTORS' GLOBAL CLIMATE GOALS

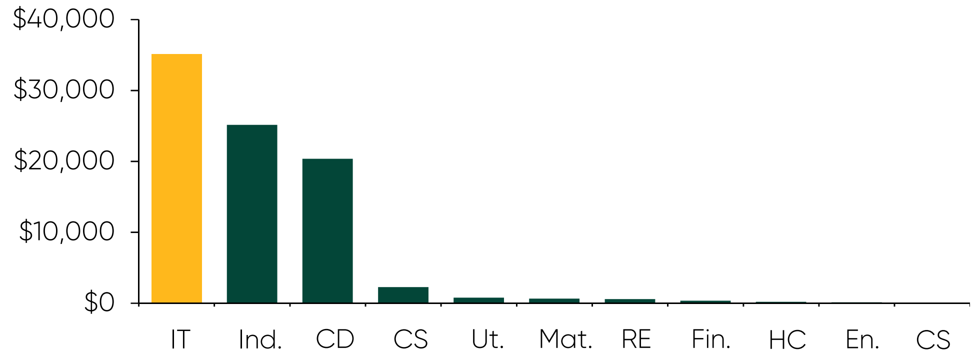
The Tech sector isn't the only beneficiary of cloud computing's rapid and widespread adoption. Cloud service providers also aid ESG investors' climate goals by helping support energy efficiency and renewable energy use.

Cloud computing has expanded throughout the global economy as companies strive to more efficiently store and access their data. Storing and analyzing larger and more complicated datasets require resources. Whereas firms used to store their data on-site, more are now outsourcing their storage needs to companies like Amazon Web Services and Microsoft Azure for the specialization and scale they provide.

Our research shows widespread adoption of cloud-based services has a beneficial impact on energy consumption. This wasn't always obvious. While server farms provide secure, scalable and cost-efficient computing, they also require a tremendous amount of energy to operate and cool the hardware. As cloud computing gained prominence, some investors worried data centers' carbon emissions would rise alongside their energy use. However, recent studies show strides in these clusters' operational efficiency allowed a 550% leap in computational power between 2010 and 2018 with only a 6% bump in energy consumption.

Reducing energy consumption isn't out of line with companies' profit motive, either. Reducing major input costs like energy overhead can improve profitability. This aligns cloud giants' incentives with ESG investors'. From a top-down view, MSCI's Impact Revenue data show how the Tech sector outpaces others on money spent towards energy efficiency.

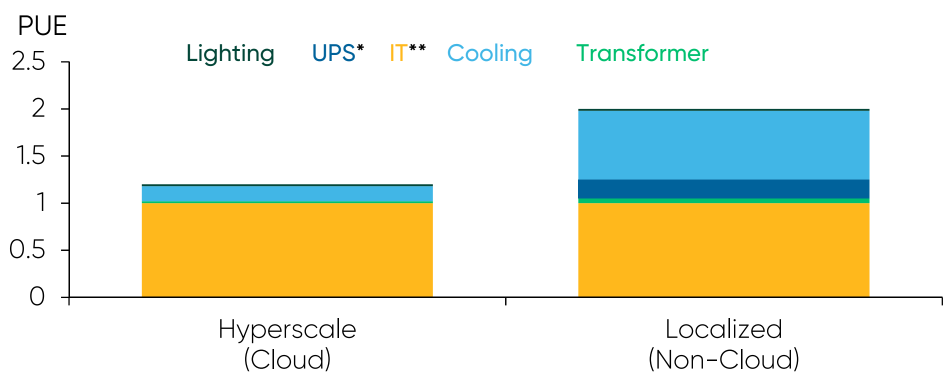
**EXHIBIT 1: REVENUES SPENT TOWARDS ENERGY EFFICIENCY (MILLIONS, USD)**




*Source: MSCI ESG as of June 2020.*

Moreover, these energy efficiency investments extend cloud computing's inherent advantages. Due to economies of scale, cloud computing is much more efficient than localized computing. Cloud firms fully utilize their servers for several clients' data, whereas on-site servers typically use only part of their capacity. One way to show this is by examining the power usage effectiveness (PUE) of "hyperscale" (very large) data centers compared to localized ones. PUE measures efficiency by dividing the total energy companies consume by the energy they use to operate their information technology (IT) infrastructure, such as data servers, networking and storage. The chart below shows that hyperscale data centers are almost twice as energy efficient as localized data centers.

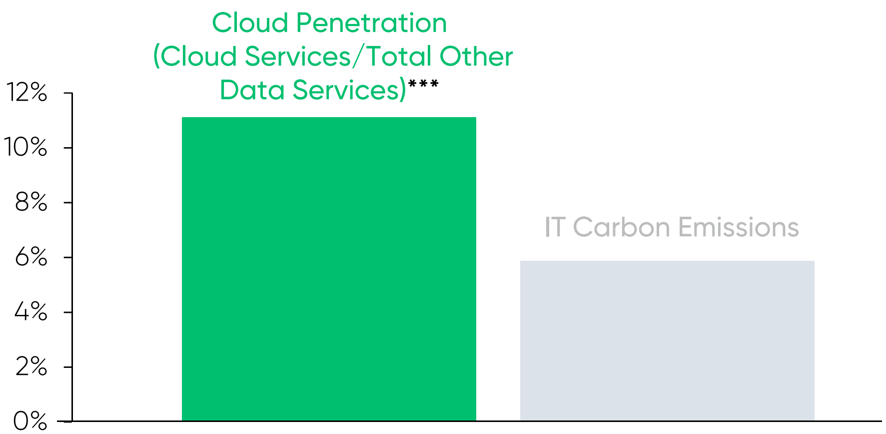
**EXHIBIT 2: LARGE DATA CENTERS ARE MORE EFFICIENT WITH THEIR POWER**




*Data Servers, Networking and Storage. ** Uninteruptible Power Supply. Source: Lawrence Berkely National Laboratory, June 2016.*

Another way to examine cloud firms' impact on global climate change goals is to compare the growth of cloud use relative to growth in carbon emissions. Reducing carbon emissions is a big goal for many ESG investors. Cloud use growth can be measured by looking at how much cloud services have grown relative to the other data services such as infrastructure software, hardware and non-cloud support services. Cloud use growth is nearly double that of the IT sector's carbon emissions growth. While enough companies haven't yet been reported to examine 2019 data, we expect this trend to continue.

**EXHIBIT 3: 2017-2018 ANNUAL GROWTH**

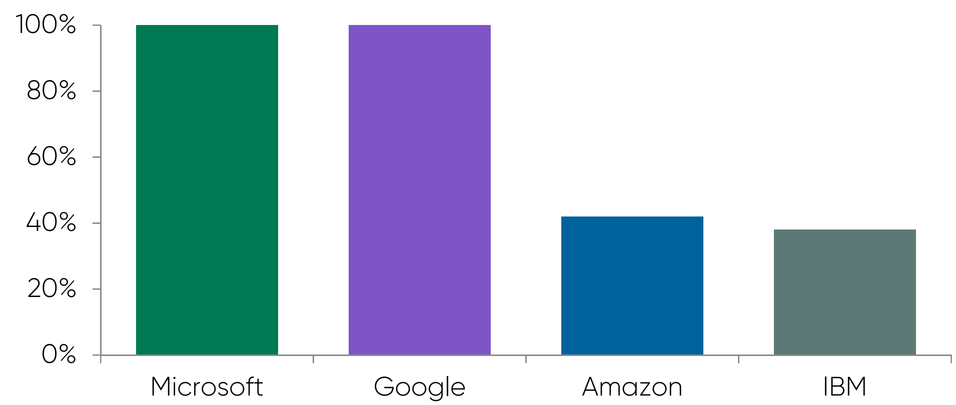



*Source: Gartner as of March 2020, MSCI ESG as of June 2020. Cloud Services = PaaS services + IaaS (Cloud System Infrastructure) services; Non-Cloud Growth = Infrastructure Software (Ex-PaaS) + Other Data Center Services + IT Hardware + Support Services.*

Finally, there are cloud firms' growing renewable energy use. One of the biggest issues facing widespread renewable energy adoption is startup costs. Enormous fixed costs inhibit large scale and cost effective renewable energy deployment. Also, directly using renewable energy is currently not straightforward with multiple energy sources feeding into the power grid. It is difficult to know just how much of cloud firms' energy use comes from renewables, but some of the largest are utilizing Power Purchase Agreements and Renewable Energy Credits. These allow firms to either directly contract the use of renewable energy or purchase credits representing renewable energy generation. The impact of both methods is that renewable energy creators receive more funding, which helps build the infrastructure for more environmentally friendly energy use.

To examine this, let's look at the four largest cloud service providers: Microsoft, Amazon, Google and IBM. Each of these industry giants leads in renewable energy consumption. Microsoft and Google currently purchase enough renewable energy to match all of their electricity consumption. Amazon has committed to 100% renewable use by 2025, and IBM is aiming for 55% renewable use by 2025. While these are only a few names, they each use a tremendous amount of energy, making their renewable contributions all the more impactful. There are certainly more Tech names committed to renewables, but these four leaders help set the pace for the rest of the industry.

**EXHIBIT 4: RENEWABALE ENERGY USE OF MAJOR CLOUD SERVICE PROVIDERS**




*Source: Microsoft, Google, Amazon and IBM as of June 2020*

Energy efficiency and renewable use may not be the largest performance drivers, but for ESG investors, cloud service providers serve a clear function in addressing long term climate goals. Fisher's proprietary top down materiality system helps make these insights visible. We can then use this to craft responsible investment themes with clarity on how trends impact a given market segment and then honing in on those drivers. Continued use and development of our materiality system also reveals other trends, supporting our goal of continued leadership in responsible money management.

# ESG DEMAND STRONG DESPITE BEAR MARKET

*Zoe Abbott Boyd*
*ESG Program Manager*

### ESG DEMAND STRONG DESPITE BEAR MARKET

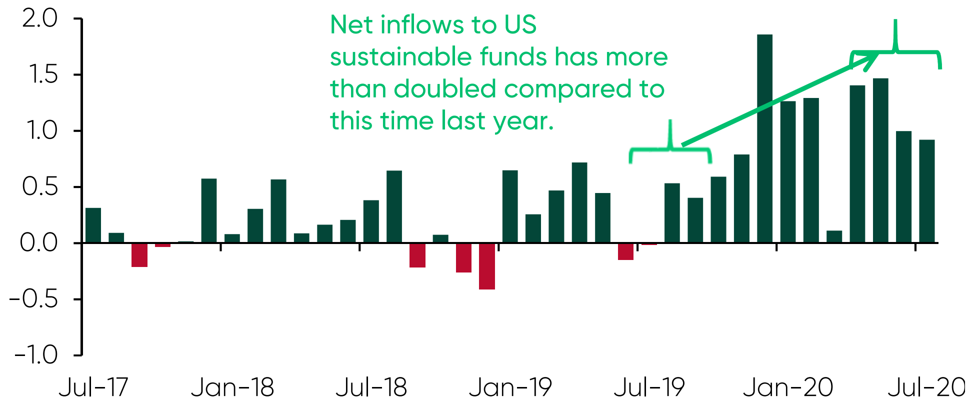
Demand for ESG investments has continued to increases despite the bear market. According to Morningstar Direct, the first four months of 2020 saw investors distribute a record $12.2 billion into ESG funds. To put this number into perspective, that is more than double the amount that ESG funds attracted during the same period last year.

Demand for ESG-oriented products has increased dramatically over the last 50 years. Although the vast majority of ESG fund growth has occurred since 2012 – during the longest bull market in history – growth has continued even during the COVID crisis.

Prior to the current bear market, skeptics have suggested that while ESG may perform well in bullish cycles, investors would jump ship during extended market volatility. Yet investment during the first four months of 2020 provides a real-world example of the strength of ESG demand in a time of global uncertainty and market volatility.

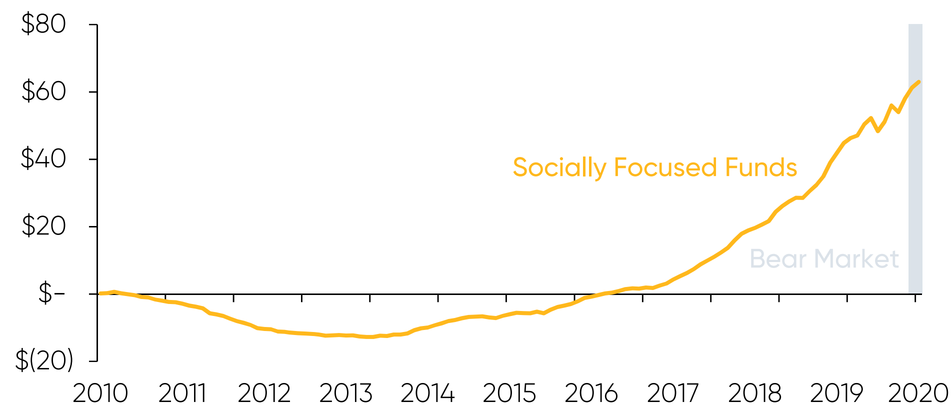
Socially focused funds will likely see a boost in demand. The public health crisis is bringing the social component of ESG to the forefront and, relative to this time last year, socially focused funds have grown 19%. (Exhibit 2).

**EXHIBIT 1: ESG DEMAND STRONG DESPITE BEAR MARKET**




*Source: Morningstar Direct as of July 2020. Shows net inflows aggregated from all fund share classes included in the following Morningstar Sustainable Investment criteria's, and available for sale in the United States. *Sustainable Investment Criteria's included: Community development, Environmental, ESG Incorporation, Gender & Diversity, General Environmental Sector, Low Carbon/Fossil Fuel Free, Other Impact Themes, Renewable Energy & Water-Focused. (330 funds total).*

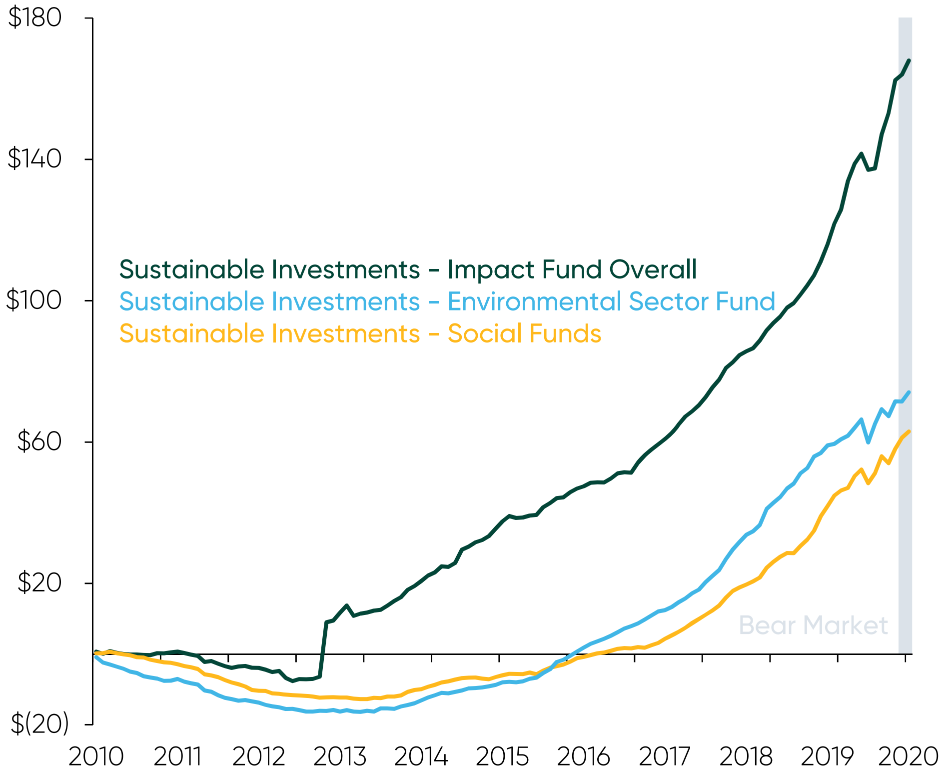
**EXHIBIT 2: SOCIALLY FOCUSED FUNDS LIKELY WILL SEE A BOOST IN DEMAND**




*Source: Morningstar Direct as of July 2020. Shows net inflows aggregated from all fund share classes included in the following Morningstar Sustainable Investment criteria's, and available for sale in the United States. *Sustainable Investment Criteria's included: Community development, Environmental, ESG Incorporation, Gender & Diversity, General Environmental Sector, Low Carbon/Fossil Fuel Free, Other Impact Themes, Renewable Energy & Water-Focused. (330 funds total).*

Net flows into environmental, social and impact funds remain positive despite the current market environment. Moving forward we expect to see continued demand for both E and S focused funds. Impact Investing—which incorporates both E and S considerations-is one of the fastest growing types of ESG investing globally.

**EXHIBIT 3: CUMULATIVE NET FLOWS FOR SOCIAL, ENVIRONMENTAL AND IMPACT FUNDS**




*Source: Morningstar Direct, as of May 2020. Shows cumulative net inflows for open-end and exchange traded funds in billions of USD, from April 2010 to April 2020. Based on the Morningstar sustainable investment criteria's as shown on chart. Social funds are based on the aggregate flows for the Community Development and Gender & Diversity Morningstar Sustainable Investment criteria's. Based on 2,373 active and passive products. Based on 11,704 active and passive products.*

**EXHIBIT 4: EXAMPLES OF TOP-DOWN ESG INVESTMENT CONSIDERATIONS**

| | Environmental | Social | Governance |
|---|---|---|---|
| Economic | Natural Resource Exposure<br>Energy<br>Exports/Import Urbanization | Wages and Labor Cost<br>Demographic Shifts<br>Access to Health Care and Education | Progress Reform<br>Capital Markets Regulations<br>Embargoes and Tariffs |
| Political | Environmental Legislation<br>Renewable Energy Opportunities<br>Pollution Prevention | Human Rights<br>Immigration Policies<br>Access to Fair Elections | Institutional Corruption<br>Government Stewardship<br>Shareholder Friendly Legislation |
| Sentiment | Natural Disaster<br>Sustainability Themed Fund Net Flows<br>Healthier Lifestyle Shifts | Disease Epidemics<br>Divestment Movements<br>Racial Tension | Anti-Corruption Crackdown<br>Government Stability Perception<br>Political Scandals |

# ESG ENGAGEMENT AS PART OF ACTIVE OWNERSHIP

*Sagar Rijal*
*Investor Responsibility & Engagement Analyst*

## WHAT IS ESG CORPORATE ENGAGEMENT AND HOW DOES IT DRIVE VALUE?

Fisher Investments is an active owner which engages with companies as part of its fundamental analysis and to clarify or express concerns over potential ESG issues at the firm or industry level. In general, boards and management endeavor to be responsive to their shareholders, and engagement provides a direct channel to discuss investor expectations and provide feedback on a company's ESG policies and practices. While ESG ratings and scores—such as those provided by MSCI or ISS—enable comparative analysis of corporate performance in each of the categories, engagement allows us to do a deeper dive on corporate strategy and the factors influencing performance. This creates valuable source of qualitative information to incorporate into our investment processes.

ESG issues vary based on the sector or company, but common themes include:


## ENGAGEMENT PRIORITIES

Our engagement priorities align with FI's responsibilities as a fiduciary and incorporate areas of interest to FIIG clients. Examples of engagement topics include:

- **Environment:** Impact of climate change, water and forest stewardship, single use plastics, waste management.
- **Social:** human capital management (workforce, benefits, living wage), human rights, business risks associated with conflict-affected areas, local community impact.
- **Governance:** Executive compensation, board composition (independence and diversity), bribery & corruption, disclosure of corporate political and lobbying expenditures.
- **Sustainability Reporting:** Disclosure in line with established frameworks such as the Sustainability Accounting Standards Board, CDP (formerly Carbon Disclosure Project) or the Task Force on Climate related Financial Disclosures.
- **Proxy-Related:** Engagements are connected to an upcoming proxy vote. The teams may seek additional information to inform FI's vote or when there is disagreement with our proxy advisor's recommendations. In addition, companies will occasionally request a meeting to discuss an issue related to the proxy.

## ENGAGEMENT PROCESS: COMPANY SELECTION & RESEARCH

Our Investor Responsibility and Engagement team and research analysts work together to identify ESG risks and opportunities and conduct engagement with companies. We begin with a top down sector-based materiality assessment to generate a focus list of potential engagement opportunities. The list is further vetted based on bottom up company research. As part of this process, we review a wide range of materials, including: analysis from our ESG research providers, company financial and sustainability disclosures, research from responsible investment network partners and relevant Non-Governmental Organization reports.

In addition, engagement is considered when: our ratings service provider significantly downgrade a company; a company's activity results in it being assigned a red flag (severe controversy); we decide against buying a security in an ESG portfolio for ESG-related reasons; a holding no longer complies with our ESG screens; we seek to learn more about an upcoming proxy vote; the company has material ESG issues; or at the request of a client.

Holdings that pose the highest systematic risk to portfolios receive top priority for engagement. ESG considerations with the potential for future impact receive higher priority over ESG impacts that have already occurred. FI also selects existing holdings over prospective or former holdings. Given the global nature of our business and our respective portfolios, we do not give preference to any particular company's geography.

## ENGAGEMENT OUTCOMES: DIALOGUE, SUCCESSES & CHALLENGES

Each engagement has a defined objective and a plan for follow up with the company. We monitor the company's progress and record milestones along the way. All engagement interactions are documented and we produce quarterly engagement reports to describe our activities.

Engagement success is typically determined by tracking interim milestones along a prolonged timeline. Some milestones, specifically those concerned with additional disclosures or clarifications, are easier to evaluate whereas milestones related to policy change and implementation necessarily involve longer time horizons.

If an engagement dialogue with management fails to achieve our desired objective and we wish to retain the investment in the company concerned, we consider carefully whether to utilize escalation strategies, such as withholding our vote from one or more members of the board of directors.

An example of a long-term engagement with interim milestones is an energy major, where FI is co-leading an ongoing collaborative engagement. In cooperation with other institutional investors, FI is encouraging the company to align its business with the Paris Agreement.

Specifically, the engagement seeks strong corporate governance, emissions reduction across the value chain, and adequate disclosure to investors. In 2019, the company established two modest methane emissions reduction targets and linked them to the bonus of all its employees. Later, the company set additional greenhouse gas emissions reduction targets.

## CHALLENGES TO EFFECTIVE ENGAGEMENT MANAGEMENT

Active ownership and corporate engagement requires responsiveness from issuers to investor concerns on a range of material ESG issues. The process of engagement presents challenges regarding: coverage and prioritization of critical issues and target companies; availability of comparable data on company activities; and measuring engagement results.

| | | |
|---|---|---|
| *Data Quality:* In many markets, ESG data is disclosed voluntarily and/or not standardized, which creates challenges with data consistency and comparability. | *Coverage and prioritization:* Coverage and prioritization: Given the variety of ESG risk and opportunity factors that companies face, successful engagement management requires prioritization of material topics while maintaining broad sectoral and regional coverage. | *Measuring Results*: It is important to know if the engagement is effective in producing the desired outcome. |
| • FI's active ownership activities promote disclosure of standardized data, which supplements research purchased from third party data providers. | • FI sets priorities based on thorough thematic research and application of internal and external ESG criteria to identify companies with elevated risks and opportunities for engagement inclusion. | • FI establishes objectives at the outset of engagement, which provides a baseline to measure progress against. This framework allows FI to determine if its engagements are effective. |

# DEFINING POSITIVE IMPACT

*Nurul Bachik*
*Portfolio Analyst*

## DEFINING POSITIVE IMPACT

Impact investing is fast becoming more popular among investors that want to generate positive social and environmental impact as well as financial return. However, one of the most difficult problems in impact implementation is impact attribution. How do you decompose financial returns generated by funding in impactful securities? It is especially important among impact funders to have a minimum understanding of how their money is generating positive effects without sacrificing performance.

Fisher Investments Institutional and Research group are currently researching on the many ways to approach impact attribution along with the challenges and potential best practices to figure out the best way to quantify and correlate impact securities with financial returns. Presently, in our impact portfolio, we utilize MSCI's Sustainable Impact Revenue factor to quantify positive impact securities.

This metric is calculated based on how much revenue is derived from addressing environmental and social challenges (as defined by the UN Sustainable Development Goals). One of the ways we have approached impact attribution is combining the Sustainable Impact Revenue factor with Brinson attribution analysis. In this test, we replaced the typical country/sector grouping with the Sustainable Impact Revenue metric as a grouping for the allocation and selection effect. The goal is be able to decompose excess return based on low and high impact revenue securities.

**The components in Exhibit 1 can be defined as follows:**

- Highest Impact Revenue: Contribution to excess return due to highest 50% securities based on impact revenue
- Lowest Impact Revenue: Contribution to excess return due to lowest 50% securities based on impact revenue

Overall, this is just one of the many examples we are testing in order to find the best way to approach impact attribution. Fisher Investments understands that impact investors are more proactive in their intention for positive impact. As a result, we strive to use our best research capabilities to see how these high level impact goals can be translated into attribution analysis.

**EXHIBIT 1: SAMPLE ATTRIBUTION REPORT FOR FISHER INVESTMENTS US SUSTAINABLE IMPACT PORTFOLIO**

| Grouped by Total Sustainable Impact Revenue (and then by Sector) | | Portfolio Weight* | Benchmark Weight* | Portfolio Perf. | Benchmark Perf. | Allocation Effect | Selection Effect | Total Effect |
|---|---|---|---|---|---|---|---|---|
| | **Summary** | 100.0% | 100.0% | 14.1% | 7.8% | 3.3% | 3.0% | 6.3% |
| | **Highest Impact Revenue** | 49.3% | 30.8% | 27.0% | 22.2% | 2.5% | 2.2% | 4.8% |
| Top Sector | Information Technology | 25.3% | 9.7% | 31.8% | 35.6% | 4.1% | -0.5% | 3.6% |
| Bottom Sector | Consumer Staples | 2.5% | 3.2% | 7.0% | 19.9% | 0.2% | -0.4% | -0.2% |
| | **Lowest Impact Revenue** | 48.3% | 68.7% | 2.7% | 2.2% | 1.1% | 0.2% | 1.3% |
| Top Sector | Financials | 6.2% | 10.4% | 3.8% | -8.3% | 0.7% | 0.9% | 1.6% |
| Bottom Sector | Energy | 4.0% | 3.0% | -53.0% | -37.5% | -1.2% | -1.7% | -3.0% |

*Source: FactSet Portfolio Analysis, gross of fees, SEK, returns data from April 2019 to April 2020. Fisher Investments US Sustainable Impact Portfolio is benchmarked against the S&P 500 index. *Weight doesn't add up to 100% due to cash and securities that do not report impact revenue.*

# HOW TOP-DOWN GOVERNANCE ANALYSIS ADDS VALUE


*Seth Groener*
*Capital Markets Research Analyst*

*Michael Kardalinos*
*Portfolio Analytics Associate*

## TOP-DOWN VS. BOTTOM UP

Overwhelmingly, investment professionals today utilize an investment process generally known as "bottom-up" investing. A typical bottom-up investor emphasizes equity selection and researches an assortment of companies, attempting to pick those with the greatest likelihood of outperforming the market based on individual merits. The investor mixes the selected securities together to form a portfolio; however, country and sector exposures are often simply residuals of security selection.

"Top-down" investing reverses this process. A top-down investor first analyzes such macro factors as economics, politics and sentiment to forecast which investment categories are most likely to outperform the market. Only then does a top-down investor begin looking at individual securities. Top-down investing is inevitably more concerned with a portfolio's exposure to broad investment categories than any individual security. Thus, top-down is an inherently dynamic mode of investing because investment strategies are based upon the prevailing market and economic environments (which change often).

## TOP-DOWN IN AN ESG FRAMEWORK

Top-down research is highly complementary to ESG analysis. In a world of global supply chains and multinational corporations, implementing ESG considerations in the investment approach requires global insights. Over 48% of revenue of MSCI World constituents and 30% of revenue of MSCI EM constituents is derived from abroad.

Top-down investment management is all about considering factors (risks and opportunities) outside the scope of traditional financial statement analysis. This is also the main goal of ESG integration.

For example, understanding the political/legislative/corporate norms of a country can help avoid environmental or regulatory risks securities in any given country may be exposed to. To summarize: Good top-down decisions already demand ESG considerations.

While ESG factors are of significant importance, in this paper, we will focus exclusively on the added value of analyzing governance considerations through a top-down lens.

## THE PITFALLS OF QUANTITATIVE GOVERNANCE SCREENING

One common approach in 'best in class' ESG strategies is for managers to quantitatively screen out low-rated companies by total score or by individual pillar scores (E,S,G). While applying a common risk framework (ESG score screening) may be appropriate for environmental and social considerations, it is inappropriate for governance review.

## NO SHORTCUTS TO SECURITY LEVEL GOVERNANCE ANALYSIS

Broad common externalities (e.g. carbon regulation, consumer preferences) primarily drive environmental and social risk. A common risk framework (ESG score screening) thus may reasonably help managers assess security-level environmental/social risks. However, while key governance-related externalities need to be considered (e.g. government influence, country reforms), internalities unique to an individual company's structure, management team and business/industry primarily drive security-level governance risks. In analyzing governance risks, therefore, a common risk framework like ESG score screening may not sufficiently help managers.

## CORPORATE GOVERNANCE ANALYSIS INTEGRATION

Instead of applying a one-size-fits-all common framework for governance analysis, Fisher Investments evaluates governance factors at multiple stages throughout the investment process. It does this at both the top-down level (with Capital Markets Analysts and the Investment Policy Committee developing country, sector and thematic preferences) and at the bottom-up/security-level (with Securities Analysts conducting fundamental analysis and engagements.)

## TOP-DOWN GOVERNANCE PROCESS & EXAMPLES

In a top-down investment process, sector, country, style and thematic decisions contribute materially to relative performance. As such, identifying factors likely to contribute positively or negatively to country/sector performance requires significant effort. At the country level, for example, governance analysis primarily includes the degree to which a country's political/regulatory structure and trends (e.g. reforms) may influence business results or investor preference for that country relative to alternatives. Top-down governance factors considered when determining country and sector/industry allocation include governmental influence on public companies, regulation, social policy, and market reforms impacting private property, labor or corruption.

## BOTTOM-UP GOVERNANCE PROCESS

FI's Securities Analysts perform fundamental research on prospective investments to identify securities with strategic attributes most consistent with the firm's top-down views and with competitive advantages relative to their defined peer group. Governance analysis at the security level involves assessing a company's risks (e.g. ownership concentration, share class structure, proxy fights) and its ability to mitigate such risks (e.g. through board structure, independent auditor activities or managerial quality assessment). When security-level concerns present an inordinate risk to a company's operational or financial performance, or the firm believes they present undue headline risk to share price performance, FI would choose not to invest in that company.

Engagement and proxy voting are also important parts of FI's governance analysis. FI engages with companies as part of its fundamental analysis and to clarify or express concerns over potential governance issues. FI also interacts with company management on proxy voting issues, particularly when our proxy voting services provider, Institutional Shareholder Services, Inc. (ISS), disagrees with company management. FI's broader Engagement Policy is available upon request.

The importance of independent and detailed governance analysis cannot be overstated.

As discussed, there are no shortcuts to governance risk assessment, as internalities unique to an individual company's structure, management team and business/industry primarily drive security-level risks.

Using a quantitative screening approach relying on third-party (e.g. MSCI ESG Research, Sustainalytics, ISS, etc.) could lead to individual missed opportunities or a restriction of large swaths of the investment universe, such as Chinese ADRs using the Variable Interest Entity (VIE) structure.

## BRAZILIAN CORRUPTION

Corporate corruption concerns are most often focused on scandals (e.g. Operation Car Wash in Brazil) that have caused passive ESG investors to persistently underweight entire countries. Such simple risk-avoidance strategies lead investors to miss out on alpha opportunities that top-down macro managers such as FI don't overlook.

A strategy that simply screens out lower-rated companies could likely exclude an entire country or create a chronic underweight position to areas like Brazil, one of the nations with the worst Bribery and Corruption scores (per MSCI ESG Research). As a top-down manager, Fisher Investments acknowledges the risks in Brazil, but also balances them with the alpha opportunity depressed stock sentiment and fundamental economic tailwinds bring.

Furthermore, by simplistically avoiding Brazil due to fears of corporate corruption, investors also overlook the positive impact produced through the Brazilian banking system. Brazilian banks have a history of lending to low and middle class individuals, helping drive increased credit penetration for the country.

Companies such as Banco Bradesco have used unique approaches, such as riverboats, in order to bring banking to underserved regions of the country.

Such investments support UN Sustainable Development Goal #1—"No Poverty". One way for investors to reduce poverty is through investment in banks that provide credit to underserved communities. Investing in Brazilian banks—despite corruption fears—can help achieve that aim.

# LONG TERM SOCIAL IMPLICATIONS OF COVID-19


*Zoe Abbott Boyd*
*ESG Program Manager*

*Sagar Rijal*
*Investor Responsibility & Engagement Analyst*

### KEY POINTS:

• The share of working days spent at home is expected to triple as a result of COVID-19.

• Workers in higher paying industries—including Financial Services and Information Technology—will have a greater ability to work remotely than those in lower paying positions.

• Increased adoption of flexible scheduling may improve female and minority representation in firm leadership positions.

• U.S. unemployment rates by sector demonstrate the differential impact between professional, knowledge-based workers and the frontline workers in the most-impacted industries.

The long-term social effects of COVID-19 will vary across industries, job categories and income brackets. While professional, higher-income positions will likely benefit from increased schedule flexibility, retail and customer service of workers deemed 'non-essential' may continue to experience adverse impacts.

Throughout this piece we will refer to "schedule flexibility" when referring to work from home benefits, remote working conditions, and other flexibility in working conditions outside of the office headquarters.

### PROFESSIONAL WORKERS: COVID-19 WILL LIKELY SPUR COMPANIES TO OFFER BETTER SCHEDULE BENEFITS

During the global health pandemic, many companies have allowed employees to work remotely. Working from home implies greater schedule flexibility, and although this was a growing trend in the U.S. prior to the virus outbreak, COVID-19 has forced many companies to rapidly adopt it despite lingering misgivings about its appropriateness.

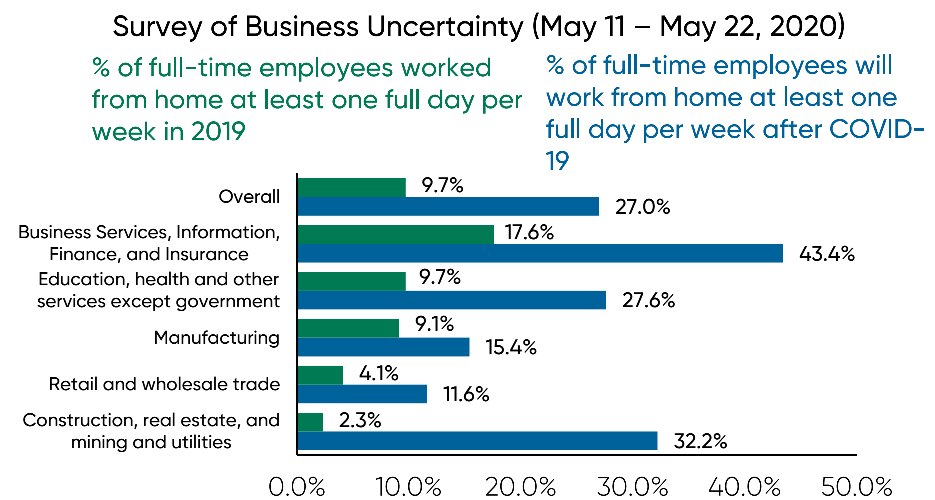
### WORK FLEXIBILITY INTO THE FUTURE: A NEW NORMAL?

According to the Federal Reserve Bank Business Uncertainty survey, the anticipated share of working days at home is set to triple after the pandemic ends—rising from 5.5 percent to 16.6 percent of all working days. Additionally, firms anticipate that 10 percent of their full-time workforce will be working from home five days a week. This trend of increased remote work flexibility will vary considerably across industries.

### FINANCIAL SERVICES & INFORMATION TECHNOLOGY

Financial service and information technology industry workers have experienced the most remote work flexibility during the pandemic and will likely see a continuation of flexible working benefits into the future, whereas front-line workers in the retail and wholesale trades are not likely to see these benefits (Exhibit 1).

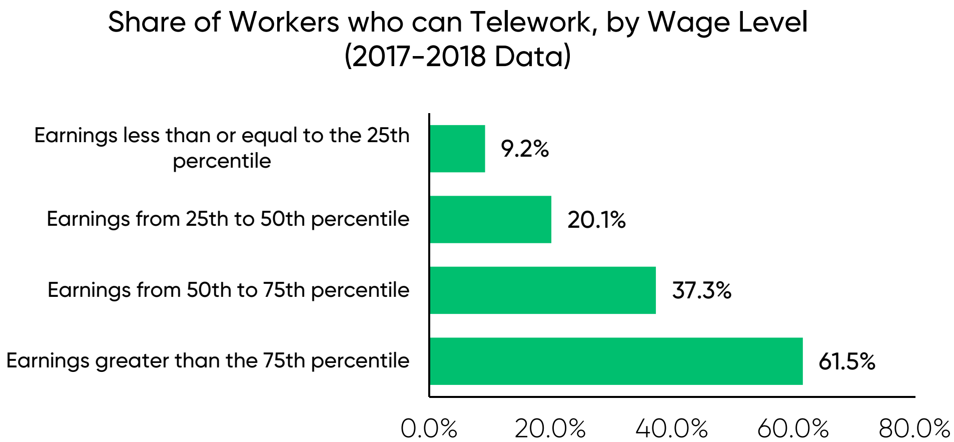
**EXHIBIT 1: REMOTE WORK EXPECTATIONS FOR MAJOR INDUSTRY GROUPS**




*Source: Survey of Business Uncertainty. Conducted by Federal Reserve Bank of Atlanta, Stanford University, and the University of Chicago Booth School of Business.*

Historically, higher wage earners, such as those in financial services and technology industries, have benefitted disproportionately from working remotely. While 61.5% of workers in the highest quartile can work remotely, only 9.2% of workers in the lowest wage quartile have the same opportunity (Exhibit 2). Looking forward, it is likely that high wage earners—who are experiencing improving remote work flexibility—will continue to be offered flexibility at a higher rate than lower paid employees, whose job functions require physical attendance.

**EXHIBIT 2: HIGH INCOME EARNERS EXPERIENCE MORE WORK FLEXIBILITY**

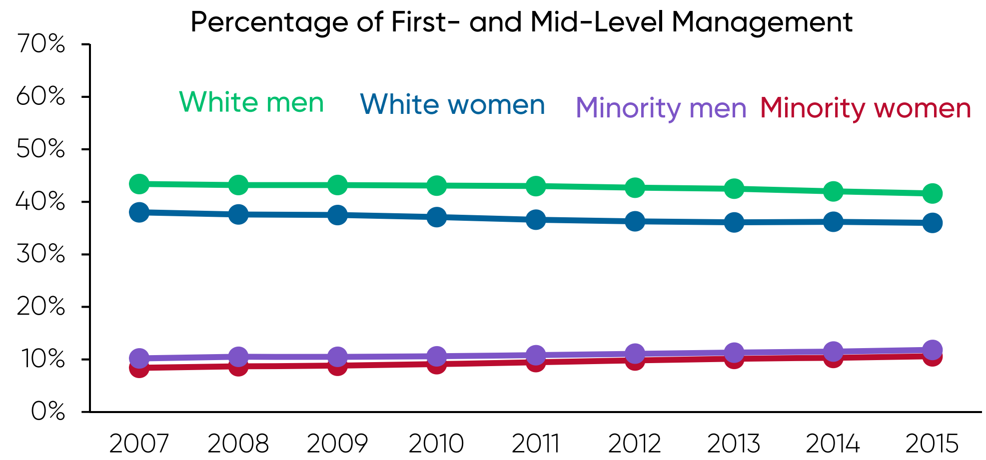


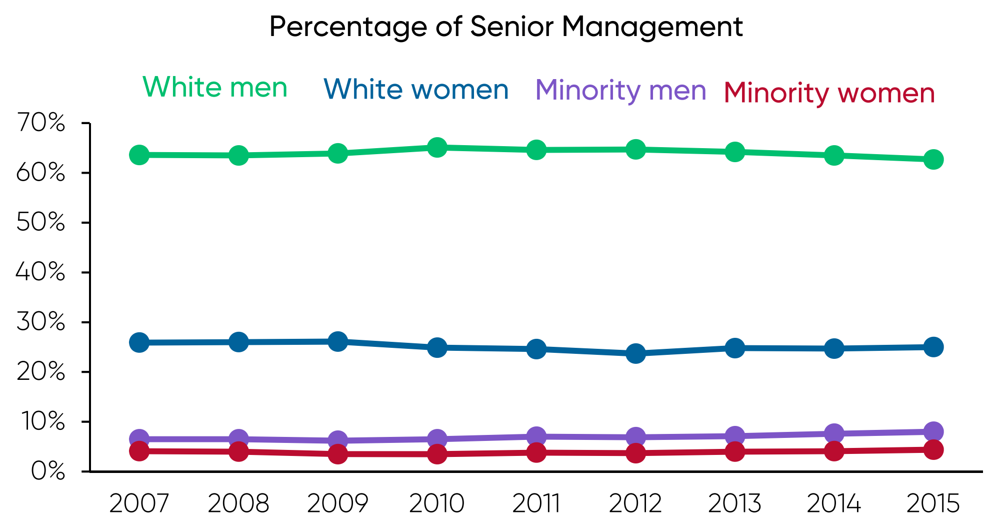

*Source: U.S. Bureau of Labor Statistics. 2017-2018 data from the American Time Use Survey.*

Many well-known technology companies such as Google, Facebook and Intel are already considering making working from home a permanent option for employees. Twitter has taken the boldest work from home stance, telling employees they can keep working remotely permanently. Additionally, firms in the business services sector anticipate that working from home will rise to nearly 45 percent.

Balancing the demands of caregiving and a career could be a key factor in reducing the gender disparity in executive and leadership positions. Minorities of both genders are vastly underrepresented across the financial services industry and white women and minorities are minimally represented at executive management levels (Exhibit 3 and 4).

**EXHIBIT 3: FINANCIAL SERVICES MINORITY & FEMALE REPRESENTATION**

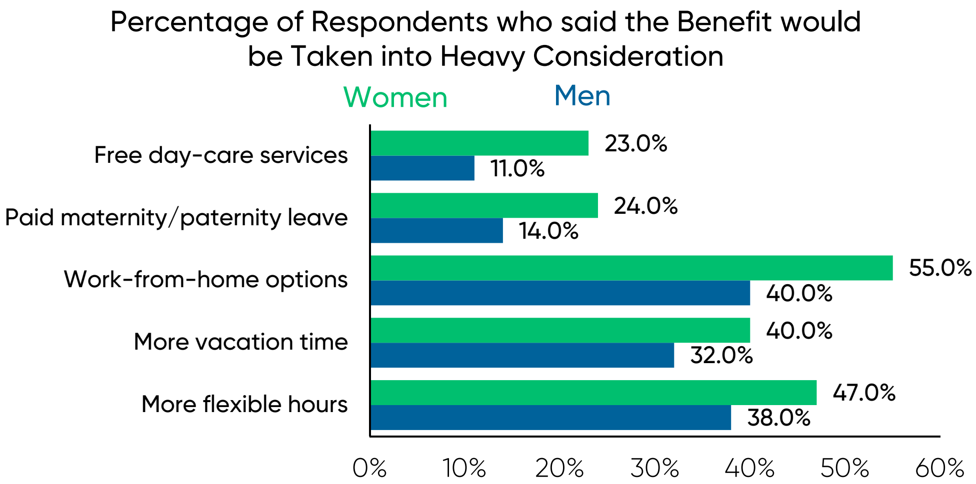



*Source: GAO Analysis of Equal Employment Opportunity Commission data for Financial Services Industry.*

While caregiving affects all members of a society, often times it predominately fall son the females in a household. Likely in part due to the difficulty of balancing caregiving with a full time job, women consider schedule flexibility to be a much more important factor than their male peers (Exhibit 4).

### EXHIBIT 4: CAREGIVING CAN HURT CAREER PROGRESSION




*Source: Fractl survey of 2,000 U.S. Workers.*

The increased schedule flexibility for professional employees, resulting from COVID-19, will likely boost female and minority representation in leadership positions across the financial and information technology sectors.

### FRONT LINE WORKERS: HIGH UNEMPLOYMENT RATE AS A COVID-19 OUTCOME

The spike in the unemployment numbers due to the pandemic, and the unknown duration of higher unemployment rates, are among the primary drivers of the adverse economic impacts. According to the Bureau of Labor Statistics, unemployment rates in the United States hit highs of 14.7% in mid-April. Similarly, the OECD estimated that in the advanced G7 economies the average unemployment rate rose to 9.1% in April 2020, whereas the International Labour Organization (ILO) projected that due to a sharp loss in working hours, more than 1.6 billion informal economy workers were in the danger of losing their livelihoods.

Until a vaccine or a treatment is widely available, the leisure and hospitality sector may continue to face headwinds. While many individuals may soon begin to plan limited vacations or spend on locally available leisure activities, other sources of activity and revenues remain uncertain. Business and conference travel, sports and entertainment venues, cruise ships and travel destinations will likely show lingering demand decay and resulting slower recovery. Similar dynamics might play out in variety of sub-industries in the wholesale and retail trades as well as transportation and utilities sectors. Additionally, most workers in these industries do not stand to see the benefits from the schedule flexibility afforded to knowledge workers in other fields.

### GLOBAL IMPACT ON WORKERS

The global footprint of the COVID-19 crisis has left no country untouched. The shock of abrupt economic inactivity has been compounded by flight and travel cancellations and reduced trade volume. Export-oriented emerging economies that rely on the consumption capacity of western markets are reeling due to weak retail demand resulting in delayed or outright cancellation of orders.

On the other hand, economies that rely on remittances are looking at long-term shortfalls in their budgets.

The social impact to vulnerable populations in the emerging economies of the global South might be expected to linger long past the immediate concerns of pandemic mitigation. Cancelled orders and lost remittance revenues will impact people along the supply chain as long as consumer demand remains tepid due to lowered consumer confidence, prolonged job losses, and weak recovery.

### CALLS FOR RACIAL JUSTICE & INCLUSION

Amid the pandemic the United States and many other countries are experiencing mass protests and demonstrations regarding civil rights and the Black Lives Matter movement. While the protests are primarily aimed at law enforcement, the racial disparity in economic opportunities cannot be discounted. The protests and resulting policy responses have the potential to amplify and prolong the economic and social disruption initiated by COVID-19.

# ENVIRONMENTAL STEWARDSHIP AT FISHER INVESTMENTS

# WHAT IS THE FISHER INVESTMENTS GREEN TEAM?

*Kate Sibley*
*Institutional Funds Team Leader*

*Fisher Creek 2 is one of the most energy-efficient commercial buildings in the surrounding Clark County, WA area, with self-dimming sustainable lighting and customized windows to reduce the energy used for heating/cooling.*

### HOW CAN FISHER INVESTMENTS IMPROVE OUR ENVIRONMENTAL IMPACT?

- Building energy efficiency
- Campus environmental preservation
- Employee environmental engagement
- Business meeting sustainability

As a firm, Fisher is looking for ways to promote our green values both internally and externally to support our ESG efforts. The Fisher Green Team is a group of volunteer employees from throughout the firm who have been tasked with answering the following opportunity statement – How can Fisher Investments improve our environmental impact? In other words, how can FI focus on the "E" in ESG, both in our company, on our campuses and amongst our employee base?

The Green Team was first chartered with brainstorming potential "green ideas" big or small. The team was given about a month to research and gather as many plausible ideas as possible, and then presented them to a panel of Executive Vice Presidents (EVPs)– Justin Arbuckle, Lane Jarvis, and David Watts.

The result was four 'buckets' of ideas presented to the panel of EVPs, breaking down implementation into short, medium and long term stages. The Green Team pitched over twenty-five ideas in the following categories: building improvements, sustainability initiatives for campus buildings, human capital, and client and prospect meetings.

Our progress on our sustainability initiatives will be reported later in 2020.

# HOW ENVIRONMENTALLY FRIENDLY IS FI'S WA HEADQUARTERS?

*Meagan Young*
*Institutional Program Manager*

*Natalia Halska*
*Materials Production Team Leader*

### MEASURING THE ENERGY EFFICIENCY OF OUR OFFICE BUILDING

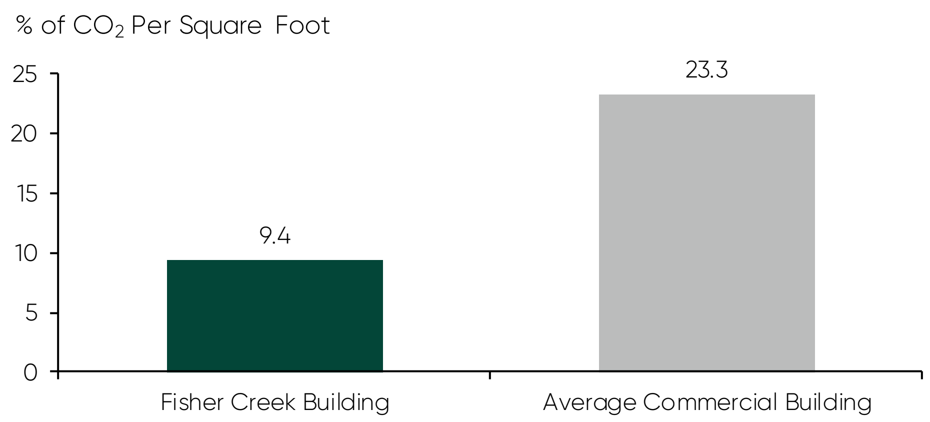
Recently, the Green Team conducted an Energy Star benchmark for the Fisher Creek 2 (FC2) building – where our institutional department resides in our Camas headquarters. The Energy Star benchmark uses the EPA's energy performance scale to assess building energy performance and track savings over time. For those not familiar with Energy Star benchmarking, it is a ranking system offered by the Environmental Protection Agency (EPA) that compares similar commercial building types across the nation and ranks them on a scale of 1 – 100. The score helps building owners and operators understand how energy efficient their buildings are in comparison to peers across the nation and establishes a baseline of performance that can be used in the future to measure the impact of any improvements that are made to the facilities. Buildings that score a 50 are considered average performing and those that score a 75 or greater are considered energy efficient and able to be certified as such. After collecting 13+ months of utility bills and specific building characteristics FC2, the Green Team was able to associate an Energy Star score of 94 for FC2 (Exhibit 1).

### WHY IS OUR BUILDING'S ENERGY EFFECIENCY IMPORTANT?

As a firm, we are looking for ways to promote our green values both internally and externally to support our ESG efforts. By reducing overall energy consumption in a building where energy is the single largest controllable operating cost, we have the potential to reduce the carbon footprint the buildings make on the environment.

*"After collecting 13+ months of utility bills and specific building characteristics for the Fisher Creek 2 building, we calculated an Energy Star score of 94."*

### EXHIBIT 1: ACCESSING OUR CARBON FOOTPRINT




*Source: Energy Star Portfolio Manager Software Program and BuildingAdvice Software.*

### IMPROVING THE SUSTAINABILITY OF OUR PRINTED MATERIALS

In an effort to be as environmentally conscious as possible with the materials used throughout our ESG meetings:

- We have made iPads available for institutional meetings to mitigate printed materials.
- While we use recycled paper (10% recycled) for all materials, we have used paper composed of a higher percentage (30%) of recycled materials for ESG materials since 2017.
- In an effort to work with companies that protect the rights of their employees, we have also chosen to work with a unionized vendor to print our ESG paper.
- We use double-sided printing for ESG materials to reduce the size and weight of paper ESG books.

# ENVIRONMENTAL STEWARDSHIP AT FISHER

Our firm's dedication to sustainability can be seen in the 2010-2014 construction and development of our Camas, Washington corporate campus. A key goal during the development process aimed was preserving and enhancing the existing wetlands and natural habitat.

## DURING THE CONSTRUCTION OF THE FISHER CREEK CAMPUS

- Preserve and Enhance over 130 acres of on-site wetlands[1]
- Planted over 5,000 wetland plants and 2,000 shrubs during development
- Planted over 400 trees while clearing fewer than 40 in order to prepare the land for development

*Wetlands on the Fisher Creek campus.*

[1] *Enhancement includes increasing the water flow through the wetlands, allowing water to flow freely under our roads, enlarging ponds, and planting indigenous wetland plants that would preserve the wetland, while also encouraging wildlife and fauna.*

## ENERGY EFFICIENCY OF CAMAS OFFICE BUILDINGS

- The most energy-efficient commercial building in the surrounding Clark County, WA area.[2]
- Equipped with a computer system that tracks all power consumption.[3] Self-Dimming Sustainable Lighting: System controls shut lights off in unused conference rooms and adjusts the brightness of internal lighting so that areas near windows that require less light, receive less light.[4]
- Features customized windows that reduce solar heat and lower power usage for heating/cooling, and feature HVAC systems that use only outside air 80% of the time to provide cooling.
- Storm water handling system that purifies water from the parking lots and the roads, through natural bioswales and large filters.[5]

*Fisher Creek campus.*

[2] *According to Clark Public Utilities who gave Fisher Camas buildings a 100% efficiency rating.*
[3] *The building has "smart" cooling and heating systems that learn through experience. The system is zoned on every floor so that heating and cooling of each zone maintains consistent temperatures throughout each floor.*
[4] *Self-Dimming lighting system maintains consistent and balanced lighting on the floors. This process of adjusts every 3 minutes and is gradual and unnoticed by the naked eye.*
[5] *There is no city storm sewer system for rain water runoff in the local area. In fact, water from Pacific Rim Boulevard and adjoining properties; actually drain onto the Fisher Camas Creek property. After purification the system feeds the retained water into ponds that then control water release into Fisher Creek.*

## FISHER INVESTMENTS EUROPE HEADQUARTERS


Canary Wharf is the world's first commercial center to be awarded plastic-free community status. One Canada Square has building-wide recycling and compost services, with zero waste to landfill from managed areas. 100% of the building's electricity has been purchased from renewable resources since 2012.

- Over 160,000 bottles refilled since 2018
- 14 electric car charging stations
- Over 5 million single use plastic items eliminated and recycled
- Over 4.7 million coffee cups recycled

Our office is equipped with a superior sustainable waste sorting system with separate containers for paper, compost, and recycling.

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**Fisher Investments Japan Limited**

Financial Instruments Business Operator

Director-General of Kanto Local Finance Bureau (Financial Instruments Firm) No. 2766

Member of Japan Investment Advisers Association

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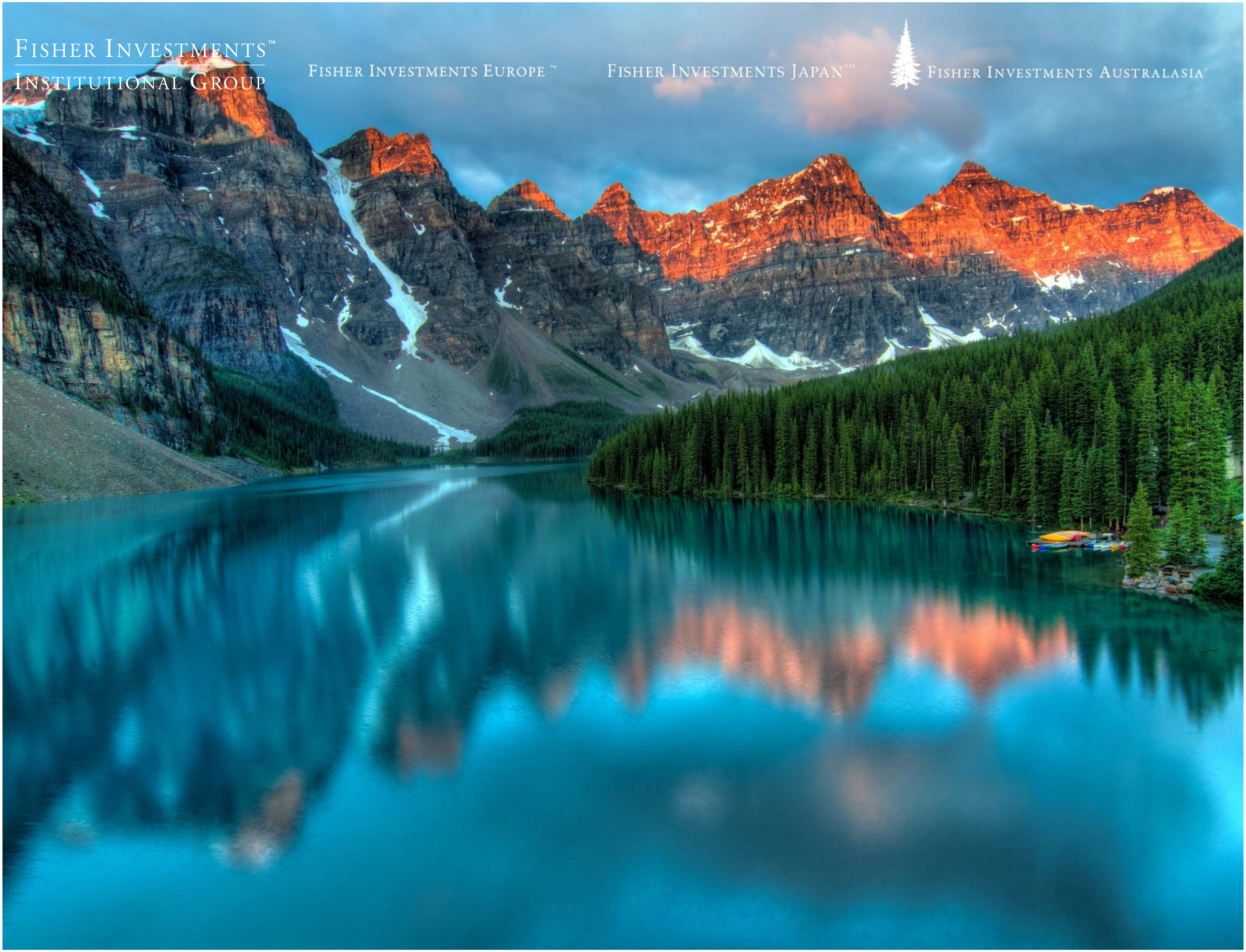
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