

Fisher Investments  
**ESG Policy  
Statement**

FISHER INVESTMENTS®  

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INSTITUTIONAL GROUP



## Introduction

Fisher Investments (FI)<sup>1</sup> considers environmental, social and governance (ESG) factors throughout the investment and portfolio construction process. Additionally, FI regularly screens and tailors the investment approach for separately managed accounts depending on the

particular guidelines mandated by the client. The overall responsibility of implementation and fulfillment of the ESG policy rests with FI's Investment Policy Committee (FI's IPC).

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## ESG Philosophy

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.

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## ESG History

FI has been managing accounts with various thresholds of environmental and social mandates for over two decades. Over that time, the firm has been able to satisfy our clients' environmentally and socially responsible mandates without compromising its broader market outlook and themes. As of March 31, 2019, FI and its subsidiaries managed 54 accounts valued at over \$19 billion USD<sup>2</sup> with environmental, religious and/or socially-responsible

investment (SRI) restrictions. FI has been a Principles for Responsible Investment (PRI) signatory since 2014, and has provided a response to the UK Financial Reporting Council Stewardship Code. Further, Fisher Investments Japan, a wholly-owned subsidiary of FI, is a signatory of the Japanese Stewardship Code.

Fisher Investments evaluates and integrates ESG factors at multiple stages throughout the investment process.

*1 Fisher Investments (FI) is an investment adviser registered with the Securities and Exchange Commission. As of March 31, 2019, FI and its subsidiaries managed over \$107 billion. FI and its subsidiaries consist of four business units – Fisher Investments Institutional Group, Fisher Investments US Private Client Group, Fisher Investments Private Client Group International, and Fisher Investments 401(k) Solutions Group. The Investment Policy Committee (IPC) is responsible for all investment decisions for the firm's strategies.*

*2 All assets as of March 31, 2019 are preliminary. Preliminary assets are subject to final reconciliation of accounts.*



ESG Issues are considered when developing country, sector and thematic preferences:

- Government influence on public companies
- Environmental legislation
- Environmental issues
- Market reforms impacting private property
- Labor and human rights

## Top-Down Investment Process

ESG factors are among the many drivers considered by FI's Capital Markets Analysts and FI's IPC when developing country, sector and thematic preferences. Governmental influence on public companies, environmental regulation, social policy, market reforms impacting private property, labor, and human rights are among ESG factors considered for all FI clients when determining country and sector/industry allocations and shaping an initial prospect list of portfolio positions.

FI's IPC, with the assistance of FI's Securities and Capital Markets Analysts determines the materiality of the ESG considerations as they pertain to countries, industries or individual stocks. These ESG factors are incorporated into the sector and country weight preferences as well as

individual stock selection. FI's investment strategy and positioning reflects the firm's outlook over the next 12-18 months. Determinations on the materiality of ESG factors by FI's IPC, as with market forecasting, are generally assessed over this same timeframe.

At a client's discretion, FI is able to refine prospective stock lists further by applying the firm's or client-provided ESG screens to the list of prospective securities for separately managed accounts. Please reference the appendix for a sample of the firm's ESG screens. FI's screening process leverages MSCI ESG Research capabilities to identify and remove portfolio candidates involved in business activities deemed inconsistent with FI's, or a client-provided, screens.



The process involves reviewing and evaluating a range of ESG factors prior to purchasing a security:

- Shareholder concentration
- Corporate stewardship
- Environmental liabilities
- Labor and human rights controversies

## Bottom-Up Investment Process

FI's Securities Analysts perform fundamental research on prospective investments to identify securities with strategic attributes consistent with the firm's top-down views and with competitive advantages relative to their defined peer group. The fundamental research process involves reviewing and evaluating a range of ESG factors with FI's IPC prior to purchasing a security, seeking to identify securities benefitting from ESG trends and avoid those with underappreciated risks. These factors include, but are not limited to, shareholder concentration, corporate stewardship, environmental opportunities & liabilities, and human or labor rights controversies. FI would choose not to invest in companies when security level issues:

- violate a client mandated ESG policy or
- present an inordinate risk to a company's operational or financial performance, or
- appear to present undue headline risk to share price performance

A material contribution of FI's relative performance is derived from sector, country, style and thematic decisions. As such, FI does not expect ESG restrictions to materially impact expected risk or return characteristics of the strategies. FI believes its ESG-related research capabilities can help enhance portfolio relative performance—particularly in instances where exposure to countries, industries, and securities with material negative ESG risks are reduced.

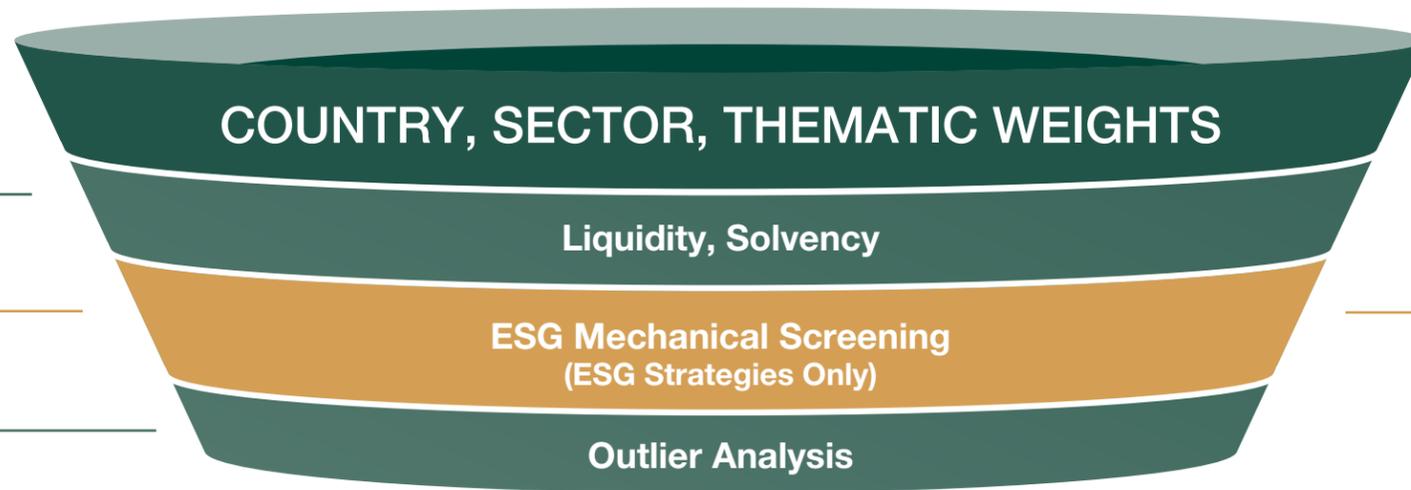
Prospect List Definition

Which categories and characteristics are appealing?

Which companies have liquidity or insolvency risk?

Are any companies disqualified based on clients ESG guidelines?

Are any companies inconsistent with the category or peer group?



**ESG Quantitative Screen Examples**

<b>Business Activities</b>
Adult Entertainment
Alcohol
Gambling
Tobacco
<b>Defense and Weapon</b>
Biological/Chemical
Cluster Bomb
Land Mines
Conventional Weapons
Nuclear Weapons
<b>Global Sanctions</b>
Burma
OFAC
<b>Global Norms and Conventions</b>
UN Global Compact
ILO Core Conventions

**PROSPECT LIST**

Stock Selection

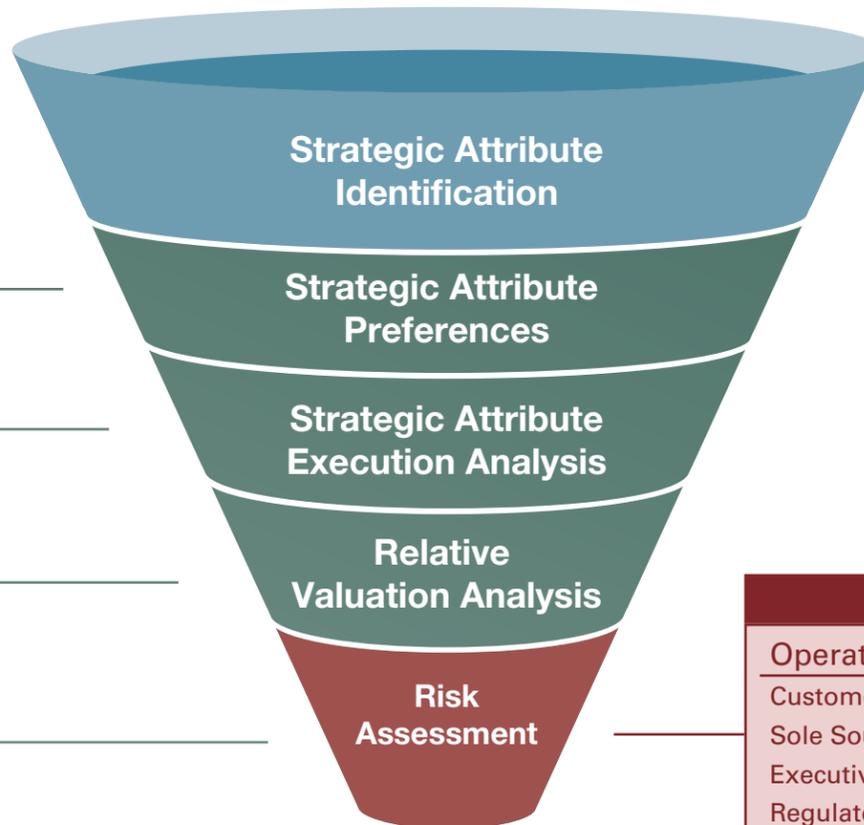
What are the company's competitive advantages?

Which strategic advantages best leverage our top-down views?

How is the company taking advantage of its strategic attribute?

Has the market fully discounted the company's advantages in its share price?

What are the material risks to the stock?



**Strategic Attribute Examples**

Brand Names	Strategic Relationships	Restructuring Plan
Market Share	Management	Innovator
Cost of Production	Turnaround Story	Strong Product Pipeline
Proprietary Technology	Barriers to Entry	Niche Market
Balance Sheet Strength	Consolidator	Regional Advantage

**Red Flag Examples**

<b>Operational</b>	<b>ESG</b>	<b>Market and Security</b>
Customer Concentration	Environmental Liability	Stock Ownership Concentration
Sole Source Supplier	Labor Relations	Pending Corporate Actions
Executive Departures	Corporate Stewardship	Accounting Irregularities
Regulatory and Legal Risks		Market Access

**STOCK**

## Monitoring & Elevations

ESG factors of portfolio holdings are continuously monitored and issues are elevated to FI's IPC when appropriate.

Capital Markets Research Analysts monitor how ESG factors may affect high-level portfolio themes. FI monitors key social policies driving wealth creation and economic growth, including, but not limited to, infrastructure investment, tax policy, free trade, property, human, and labor rights, and government reform. Political factors affecting these social policies are integral to the top-down analysis, allowing us to be cognizant of the regulatory risk surrounding the ESG environment. Additionally, research analysts monitor thematic opportunities such as advancing energy efficiency (e.g., within Industrials and Technology companies) and thematic risks such as those related to nuclear power, resource extraction (e.g., labor strikes and resource nationalization) and litigation tied to environmental impact.

Securities Analysts monitor existing holdings as part of the ongoing research process and elevate meaningful deterioration or improvements of various ESG factors at the company level. Each Capital Markets and Securities Analyst has access to a suite of tools from MSCI ESG Research including MSCI ESG Ratings and Controversies. These specialized tools assist in identifying

opportunities, risks and controversies at the company level. Additionally, analysts utilize various resources from MSCI ESG Research, Bloomberg, and FactSet to monitor holdings violating a client's restrictions after purchase of the position, such as revenue generation in specific industries (gambling, weapons, alcohol, tobacco, etc.).

As a US entity, FI complies with US regulations, including the Office of Foreign Asset Control (OFAC) sanctions. FI's Client Guidelines and Assurance (CGA) Team is responsible for both US and international sanctions monitoring. The CGA Team subscribes to various regulatory body alerts to help identify sanctioned entities. Additionally, FI retains outside legal counsel and employs third-party vendors such as MSCI to notify the firm of any changes or updates to sanctions. Sanctioned companies and countries are added to restricted lists in FI order management system, Eze OMS.

CGA is also responsible for monitoring any holdings violating a client's restrictions before and after purchase of the position, such as revenue generation in specific industries (gambling, weapons, alcohol, tobacco, etc.) utilizing various resources from MSCI ESG Research, and FactSet. Any violations or potential violations are elevated to the IPC for review.

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## Engagement

FI 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. FI also engages with company management on proxy voting issues, particularly when Institutional Shareholder Services, Inc. (ISS) is in disagreement with company management.

FI holds meetings with management as necessary to discuss any pertinent issues we feel are critical to analyzing the firm or better understanding peers or relevant industry factors. Information uncovered during engagement as part of the firm's fundamental analysis can impact investment decisions and stock determinations.

*Additionally, FI's Engagement Policy is available upon request.*

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## Low Carbon/Impact Portfolios

In addition to integrating ESG factors into our regular investment process, FI also offers low carbon and impact portfolios to investors. Within low carbon portfolios, FI not only targets carbon related risks more directly

by restricting various coal-fired utilities and mining companies involved in thermal coal extraction, but also explicitly targets a carbon footprint reduction relative to a benchmark.

## Proxy Voting

FI utilizes Institutional Shareholder Services Inc. (ISS) as its third-party proxy service provider. ISS is one of the largest providers of corporate governance solutions with services including objective governance research and analysis, proxy voting, and distribution solutions.

Proprietary and third-party information, such as ISS, are used to help ensure adherence to a client's standards. When FI votes proxies for clients, FI evaluates issues and votes in accordance with what FI believes will most likely help maximize shareholder value, unless otherwise expressly directed by clients. In most cases, FI is pleased to accommodate client voting guidelines on particular issues. For example, FI has the ability to vote proxies in accordance with ISS's Socially Responsible Investment (SRI) Policy generally supporting shareholder proposals on social, environmental, and labor issues.

There may be issues that could cause us to deviate from our standard voting policies. In the case of unique or novel proposals, issues are analyzed on a case by case basis. FI frequently engages with company management on proxy voting issues, particularly where ISS is in disagreement with management. In such cases, the IPC determines the appropriate course of action.

FI's Proxy Voting Committee oversees the firm's proxy voting and serves as the control point for decisions relating to proxy voting. The members of the Proxy Voting Committee include senior leadership from our Research, Portfolio Management, and Investment Operations groups. The Chief Compliance Officer is a non-voting member.

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## ESG Reporting

We are utilizing several ESG data providers such as MSCI ESG Research, Bloomberg, and FactSet that, when combined with our firm's resources, allow for extensive ESG reporting on client portfolios. Reports available

to clients may include ESG score reporting versus the benchmark, carbon footprint reporting, engagement reporting, as well as ESG attribution analyses.

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## Sources of Information

Throughout the research process, FI uses various databases and information vendors to aid and augment our proprietary internal ESG Research, including MSCI ESG Research (including MSCI Business Involvement Screening, MSCI Norms & Controversies, and MSCI Carbon Metrics), Morningstar Sustainalytics Fund Globe Ratings, Risk Metrics, Bloomberg, and FactSet.

In combination with such tools and readily available public information from ongoing analysis of holding and portfolio candidates, FI is able to accommodate socially responsible and ESG client-mandated guidelines in separate accounts while adhering to our overall investment strategy.

## Ongoing Learning

FI has designated one IPC member to oversee the continuing education of Research Analysts as it relates to ESG investing. In addition, FI has three appointed subject matter experts on FI's Capital Markets Research and Securities Research team. Together, the IPC member and the ESG specialists play a central role in the application of ESG considerations in the following areas: investment research, guideline implementation and portfolio compliance.

As part of the research process, the specialists are responsible for current and developing ESG trends and briefing FI's broader IPC when appropriate. The specialists work with data providers to help ensure quality and comprehensive data is available for decision-making and the consistent application of ongoing ESG analysis for individual securities. These specialists are responsible for training analysts and Institutional Relationship Managers on ESG issues. We plan to continue holding regular ESG training sessions for our Analysts, Relationship Managers and Associates.

The ESG Analysts also serve as the liaison between our Research teams and the Institutional Relationship Managers. In addition, they help create ESG specific deliverables for our clients and prospective clients and provide clarity on how ESG is applied in our investment process.

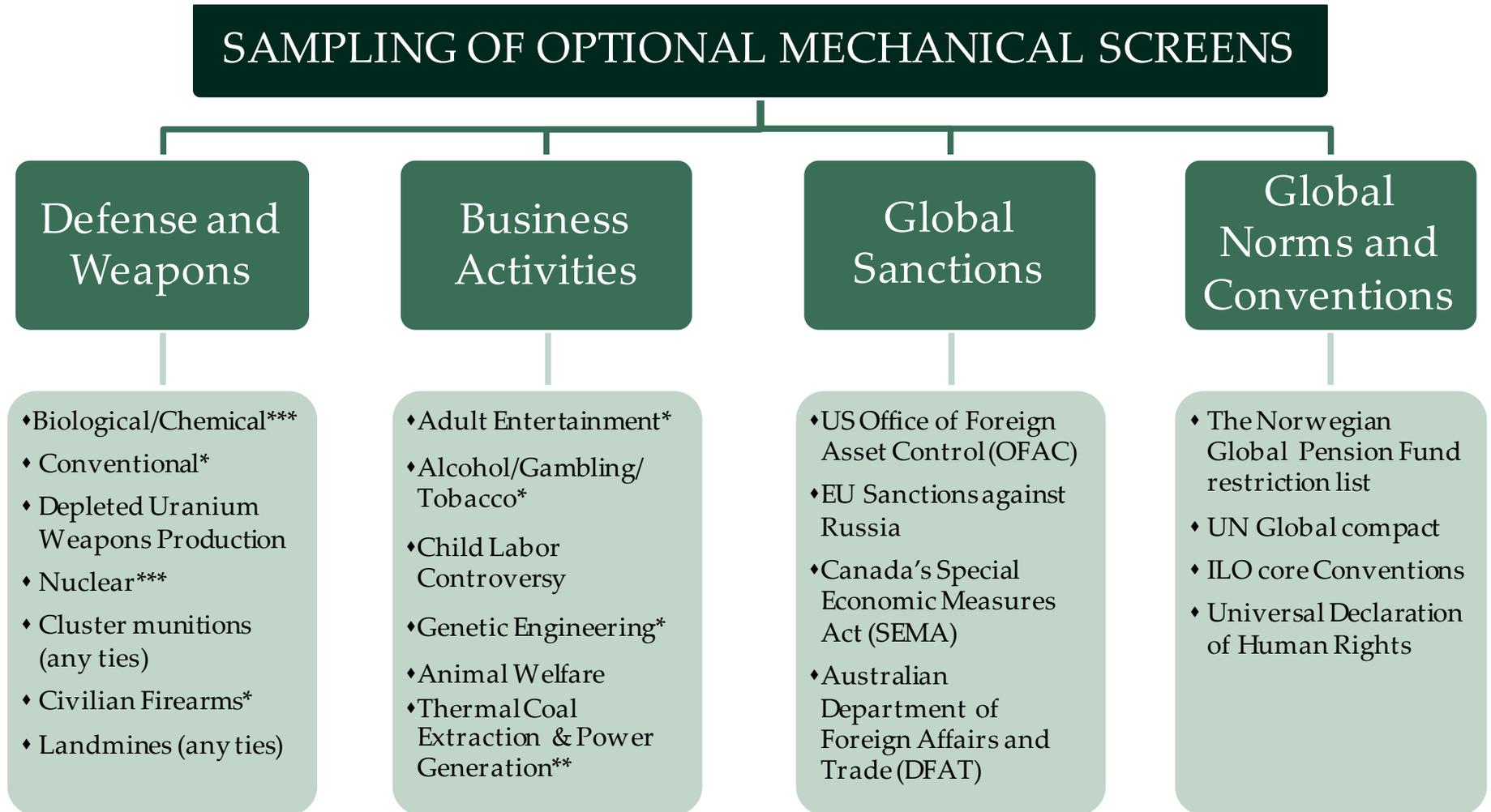
FI's formal ESG committee develops and reviews our ESG policies and keeps abreast of ESG industry developments. The ESG committee meets regularly and consists of leadership from our Portfolio Management Group as well as our Institutional Client Services and Institutional Sales Teams, with the intention of making FI a market leader in ESG investing through ESG implementation.

We strongly encourage other asset management industry participants interested in responsible investing to become a PRI signatory (<https://www.unpri.org/about/becoming-a-signatory>).

FI has an in-house team that handles client reporting requirements. FI can generally provide reporting on ESG aspects as part of the firm's standard reporting, and is pleased to customize reporting as requested. FI's latest Responsible Investment Transparency Report is publicly available on the PRI website ([linked here](#)).

## Appendix I - Sample of ESG Restrictions/ Guidelines

FI is able to place restrictions in the following categories through negative screens for separately managed accounts using MSCI ESG Research and other data sources:



\* Maximum 5% of revenue.

\*\* Companies that derive more than 30% of revenue or power generation.

\*\*\* Maximum 0% of revenue.

