

LAZARD'S SHAREHOLDER ADVISORY GROUP

## Review of Shareholder Activism - Q1 2020

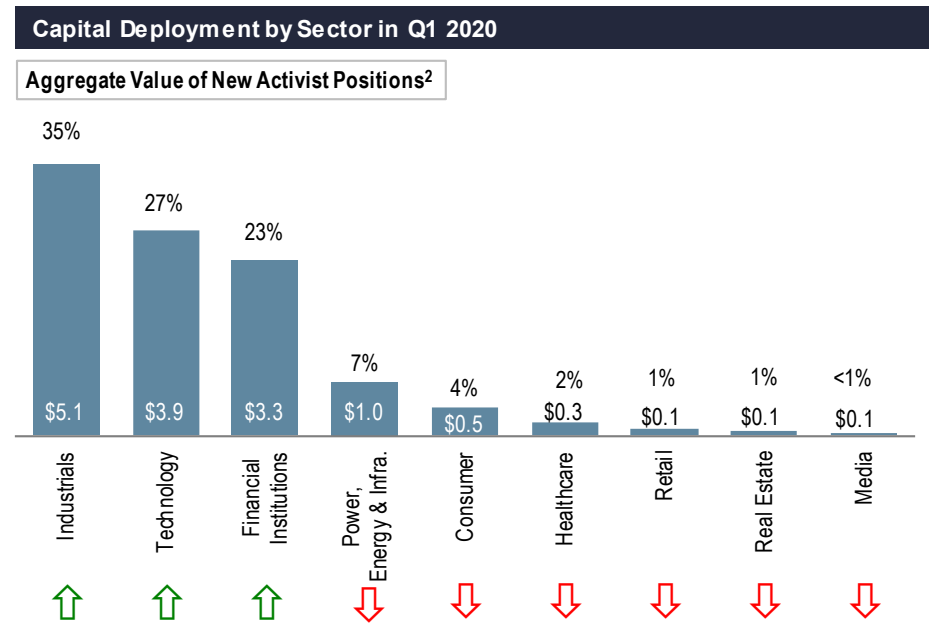
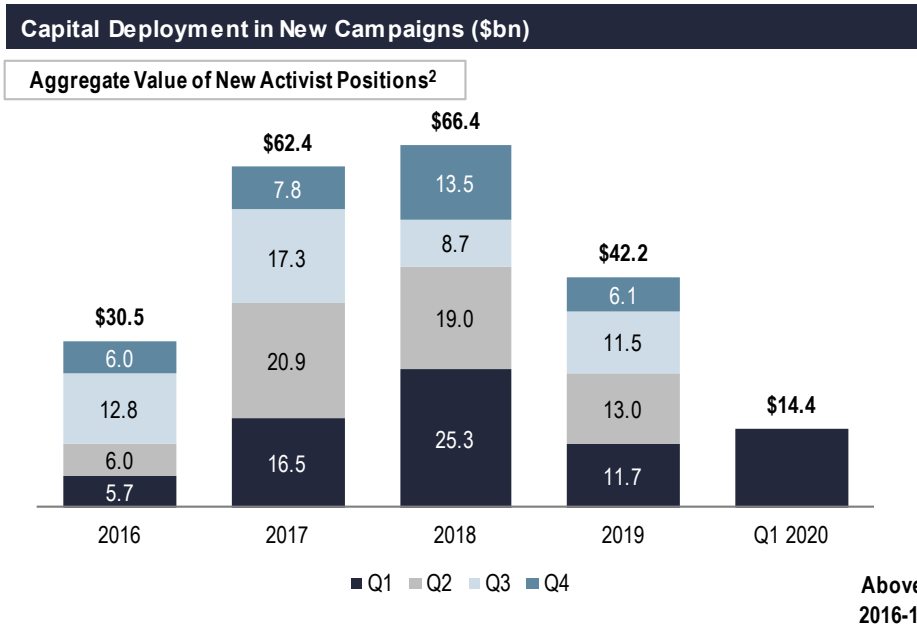
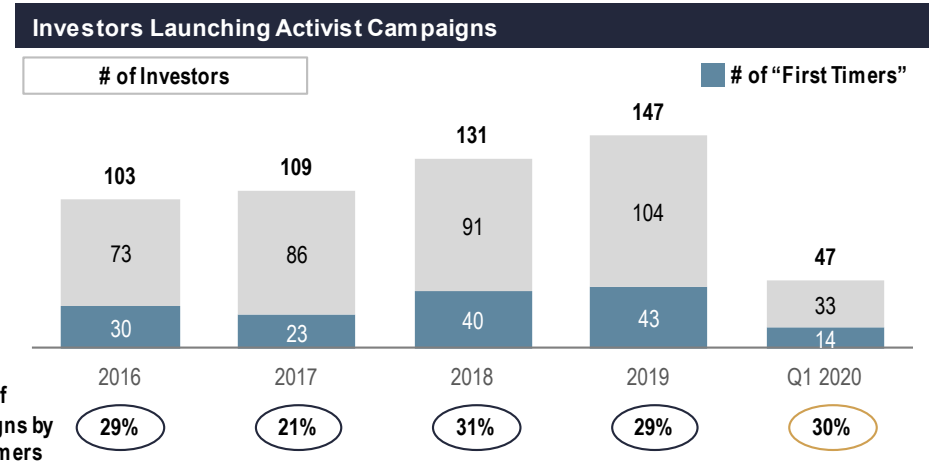
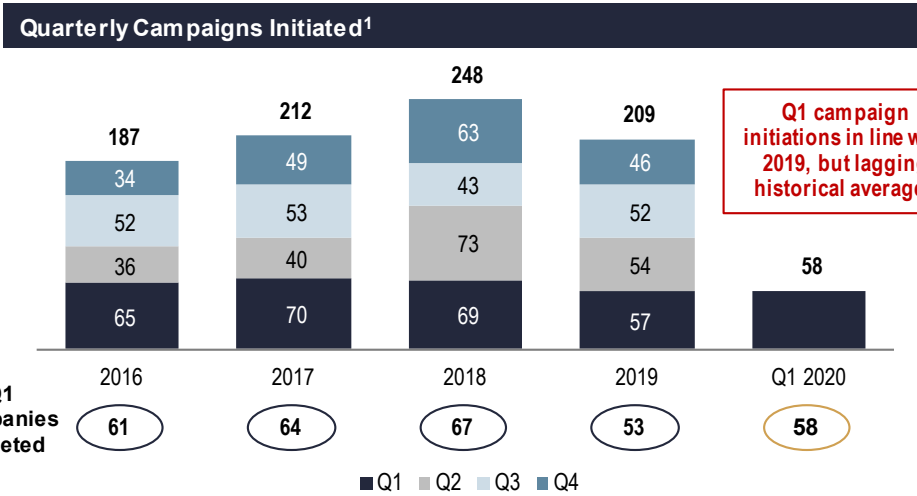
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## Observations on the Activism Environment Amid the Public Health Crisis

<p><b>1</b></p> <p><b>Impact on New Campaign Activity</b></p>	<ul style="list-style-type: none"> <li>• Prior to the public health crisis, global activism activity in 2020 was off to a strong start with 42 campaigns initiated at 42 companies and total capital deployed of \$13.1bn in January and February             <ul style="list-style-type: none"> <li>– Surge in January and February driven by Europe, which experienced record activity in terms of campaign initiations and capital deployed</li> <li>– Local activists are increasingly initiating campaigns in Europe, accounting for 71% of activity in Q1 2020, compared with 58% in 2019</li> </ul> </li> <li>• Since the outbreak in March, global activism activity significantly slowed by 38% month-over-month relative to February 2020 and 27% year-over-year relative to March 2019             <ul style="list-style-type: none"> <li>– March campaign initiation was the slowest since 2013 and capital deployed was the lowest March since 2016</li> <li>– Dampened activity in March has been consistent across the US, Europe and APAC</li> </ul> </li> <li>• Drop off in activity especially apparent on a weekly basis with average weekly campaign initiations falling from ~7 in February to ~4 in March and average weekly capital deployed of ~\$2.8bn in February falling to ~\$0.3bn in March</li> </ul>
<p><b>2</b></p> <p><b>Impact on Existing Campaigns</b></p>	<ul style="list-style-type: none"> <li>• Some activists have taken advantage of market dislocation by ratcheting up pressure and/or opportunistically increasing positions</li> <li>• In other instances, activists have opted to settle, postpone or withdraw campaigns amid the market volatility             <ul style="list-style-type: none"> <li>– 10 campaigns settled in March (e.g., Starboard / Box, Elliott / Twitter), while multiple have withdrawn or postponed campaigns, citing market conditions (e.g., Land &amp; Buildings / American Homes 4 Rent, Bluebell / Lufthansa)</li> </ul> </li> </ul>
<p><b>3</b></p> <p><b>Impact on the Activism Landscape</b></p>	<ul style="list-style-type: none"> <li>• As corporate behavior and priorities change in this new market paradigm, so too will activists' ability to publicly agitate for change</li> <li>• Overall near-term activity likely to remain subdued as activists face ongoing market volatility, uncertainty related to the duration and severity of the crisis as well as the risk of being criticized as opportunistic and self-serving</li> <li>• With M&amp;A activity grinding to a halt and corporations fighting to preserve liquidity, activists are losing arrows in their quiver</li> <li>• Notable activists such as Icahn and Starboard have maintained their heightened level of activity amid the public health crisis (e.g., Icahn / Occidental, Commvault / Starboard)</li> <li>• Expect only the most sophisticated and well-capitalized activist firms to emerge from the crisis relatively unscathed as smaller firms stand subject to increasing outflows</li> <li>• While activists will face additional hurdles following the public health crisis (increased poison pill activity, government equity stakes), expect activity to pick up meaningfully post the public health crisis</li> </ul>
<p><b>4</b></p> <p><b>Implications for ESG and Shareholder Engagement</b></p>	<ul style="list-style-type: none"> <li>• Large index funds have bolstered sustainability expectations and provided more specificity on how companies should report and respond, noting that progress should not be curtailed despite the pandemic</li> <li>• In a time of crisis, where governance shortcomings are likely to be exposed, investors will be looking to understand what actions companies have taken in response to the pandemic, particularly as it relates to human capital management, executive compensation, and business strategy</li> <li>• Despite the market chaos, ESG and sustainability-oriented funds outperformed conventional funds globally in Q1             <ul style="list-style-type: none"> <li>– Strong Q1 performance is in contradiction to recent observations which label sustainability as a “luxury good”</li> </ul> </li> </ul>

# Q1 2020 Campaign Activity and Capital Deployment

(\$ in billions)



Source: FactSet, press reports and public filings as of 3/31/2020.

Note: All data is for campaigns conducted globally by activists at companies with market capitalizations greater than \$500 million at time of campaign announcement.

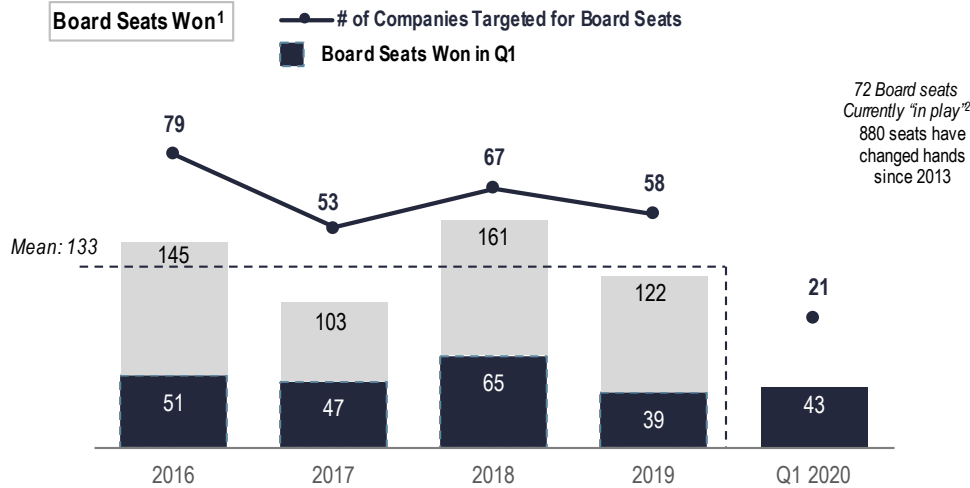
1 Companies spun off as part of campaign process counted separately.

2 Calculated as of campaign announcement date. Does not include derivative positions.

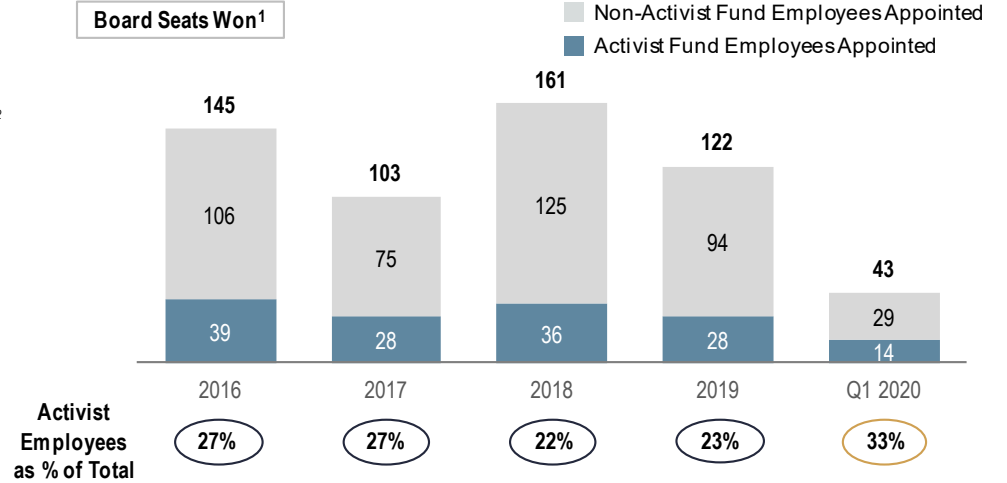
3 4-year average based on aggregate value of activist positions.

# Q1 2020 Board Seats Won

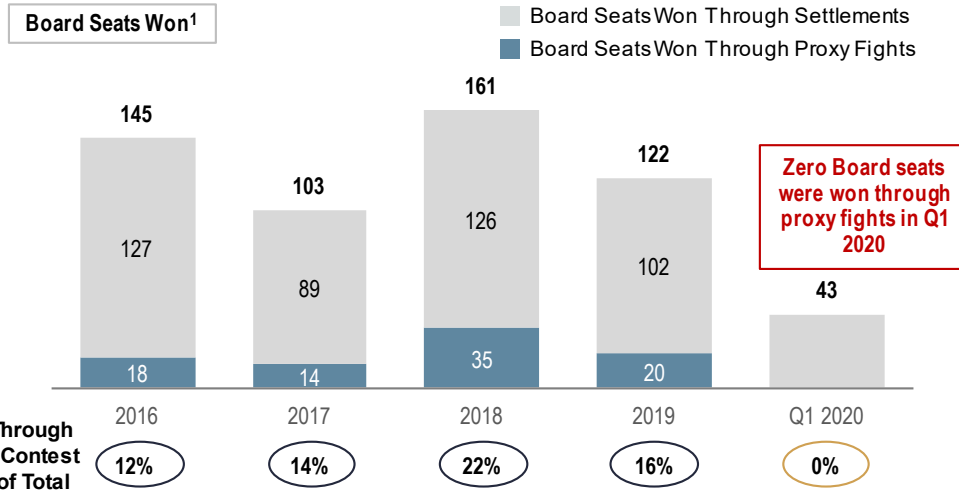
## Board Seats Won<sup>1</sup>



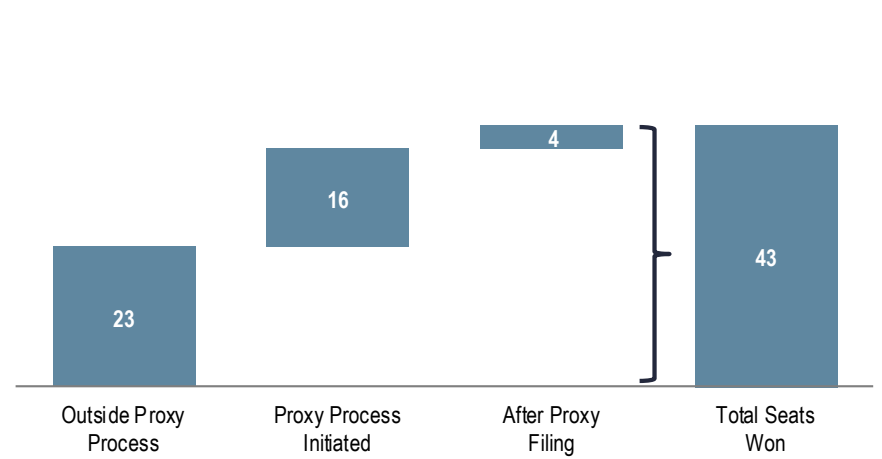
## Non-Activist Employees vs. Activist Employees Appointed as Directors



## Settlements vs. Proxy Contests



## Timing of Board Seat Wins



Source: FactSet, press reports and public filings as of 3/31/2020.  
 Note: All data is for campaigns conducted globally by activists at companies with market capitalizations greater than \$500 million at time of campaign announcement.  
 1 Represents Board seats won by activists in respective year, regardless of the year in which the campaign was initiated.  
 2 Board seats "in play" includes currently announced proxy contests at upcoming shareholder meetings as of 3/31/2020.

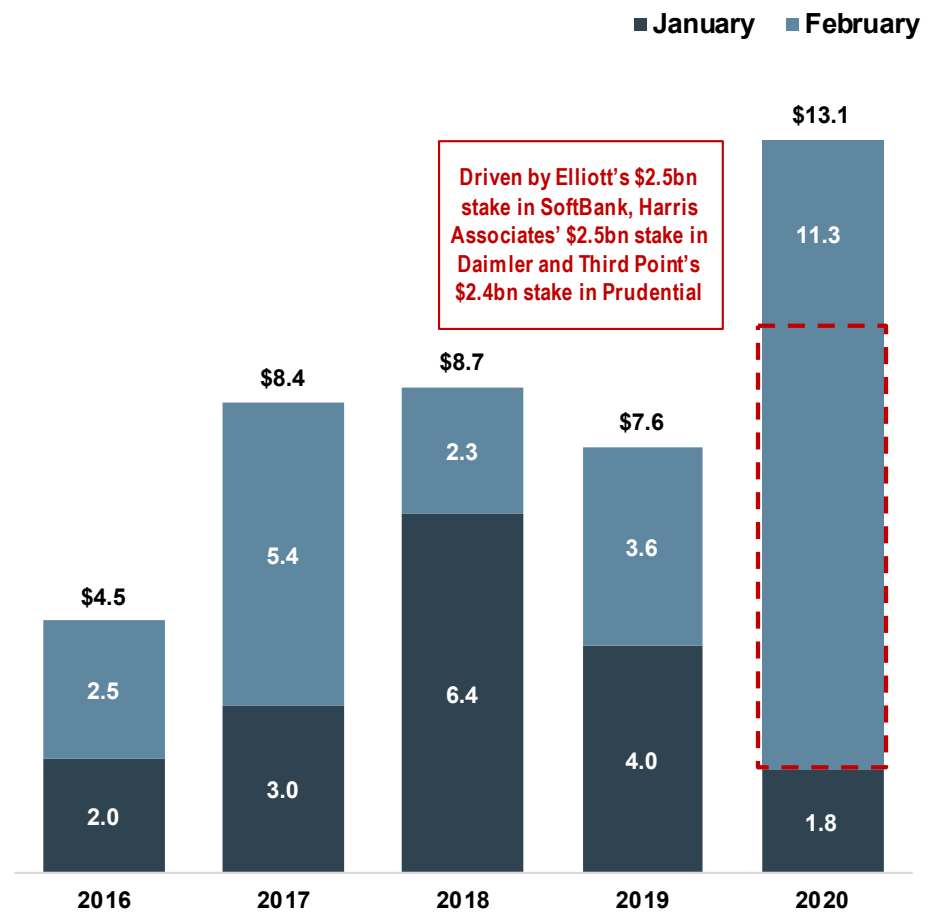
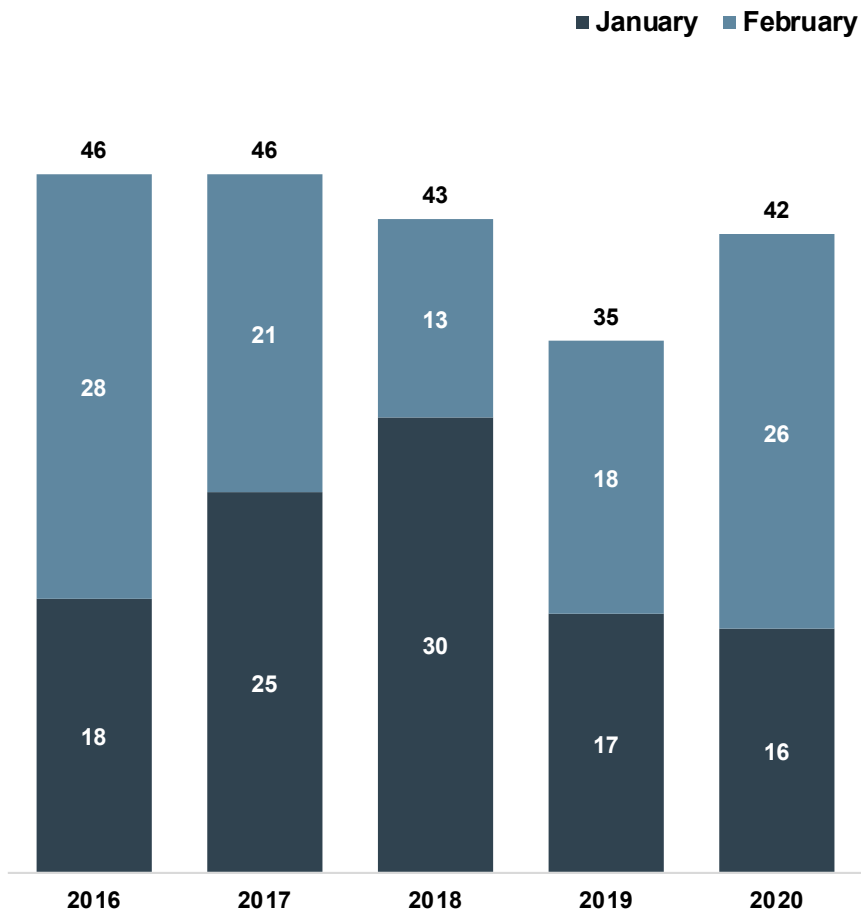
# Strong Global Activity in First Two Months of the Year

(\$ in billions)

Global activism activity in January and February was in-line with historical averages while capital deployed posted a record \$13.1bn

Historical January/February Campaigns Initiated<sup>1</sup>

Historical January/February Capital Deployed (\$bn)<sup>2</sup>



Source: FactSet, press reports and public filings as of 3/31/2020.

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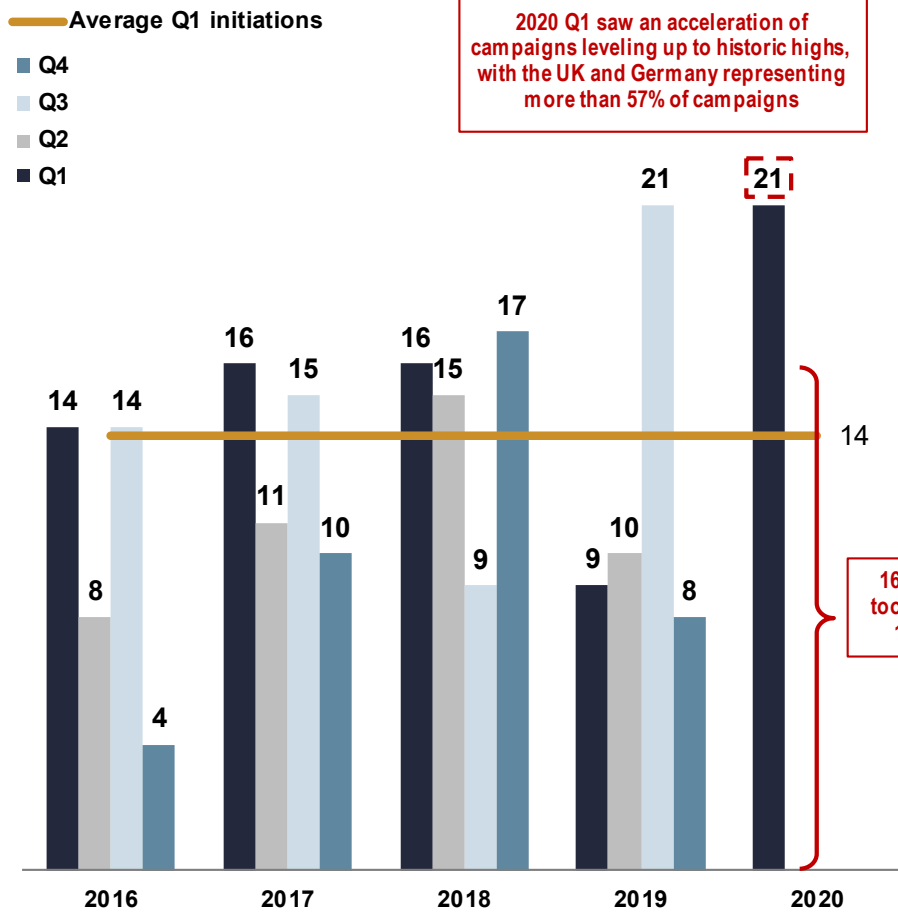
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# Strong January and February Activity in Europe

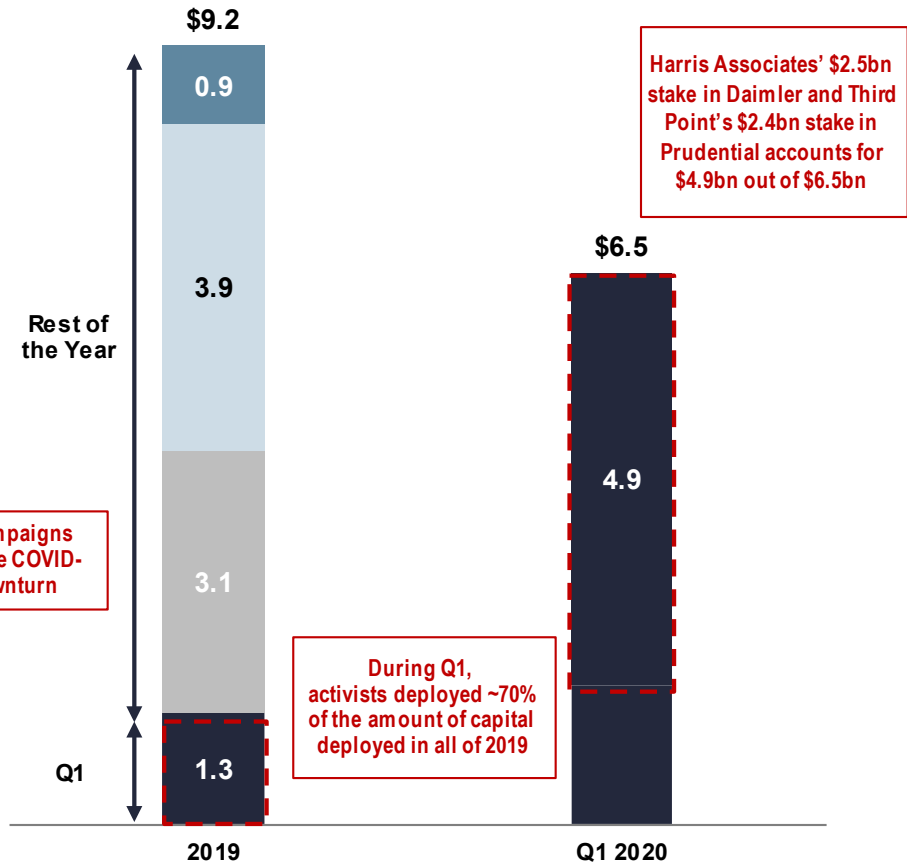
(\$ in billions)

Europe witnessed a historic number of campaigns in the beginning of 2020

Quarterly Campaigns Initiated in Europe

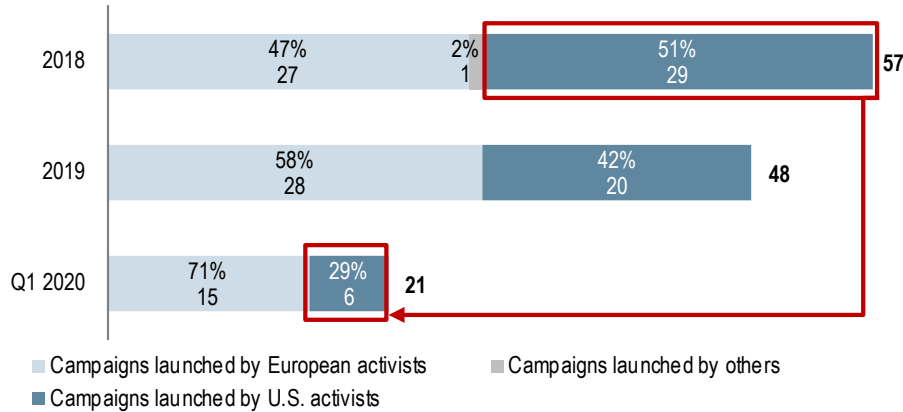


Capital Deployment in New Campaigns in Europe (\$bn)



# In Europe, U.S. Agitators Remain the Main Players but are Joined by Local Players

## U.S. Agitators are Outnumbered by Local Players ...



## Most Prolific European Activists

2018		2019		Q1 2020	
Activists	# Campaigns	Activists	# Campaigns	Activists	# Campaigns
PETRUSADVISERS	3	CIAM	6	BLUEBELL CAPITAL PARTNERS	2
Cevian Capital	3	Cevian Capital	2	ENA INVESTMENT CAPITAL	2
CIAM	2	PETRUSADVISERS	2		
LUCERNE	2	VERAISON	2		

- Despite the success of many U.S. activists, Europe has continued to attract **new European players**
- Several players became **more vocal and visible** in the European landscape, competing with **global players**

## ... but Continue to Lead the Effort

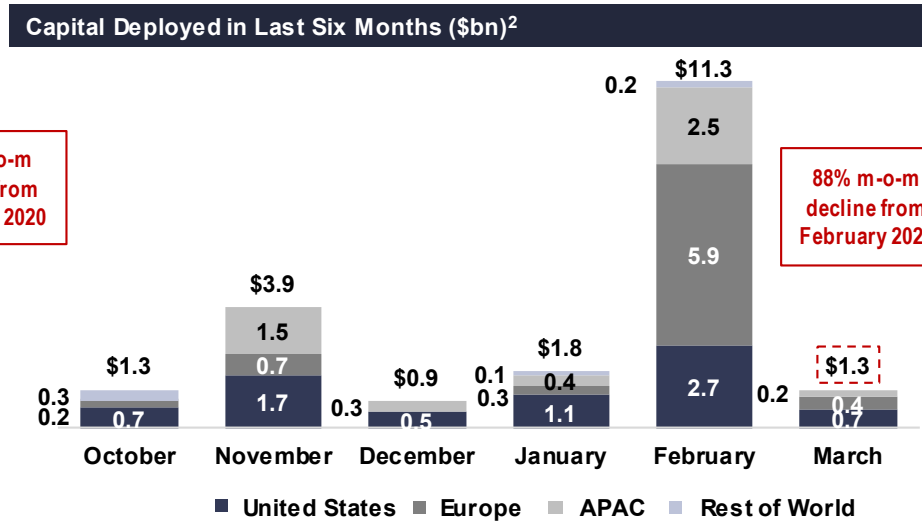
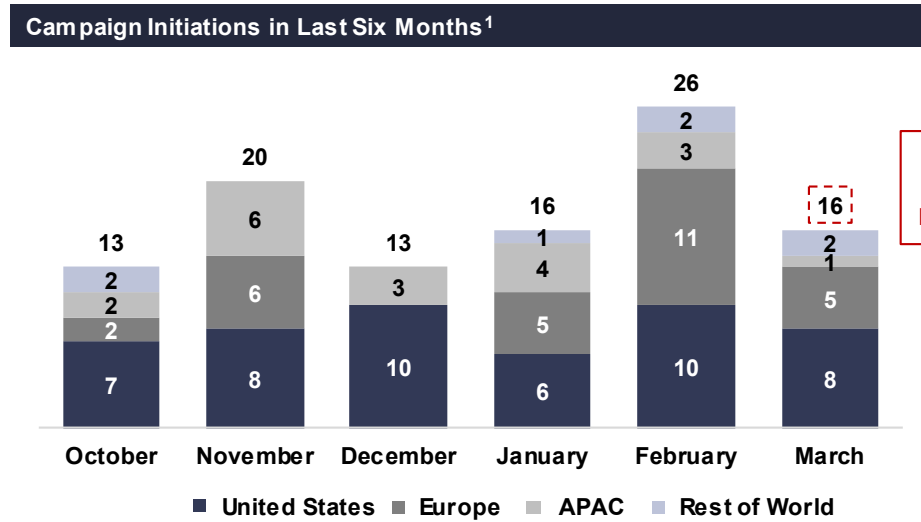


- During the first quarter, U.S. agitators deployed **~\$5.5bn in new campaigns**
- Elliott remains **“the most active activist”** in Europe. The fund has launched **the most new campaigns** in Europe so far this year, even if **those investments** are generally **smaller compared to other Elliott holdings**

# In March, Public Health Crisis Hampered Global Activism Activity

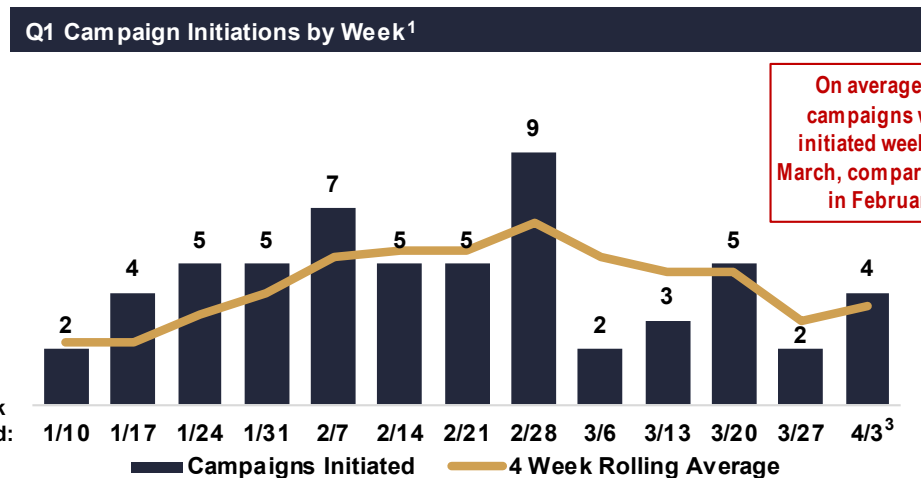
(\$ in billions)

In March, global activism activity declined significantly as extreme market volatility dampened activists' ability to publicly agitate

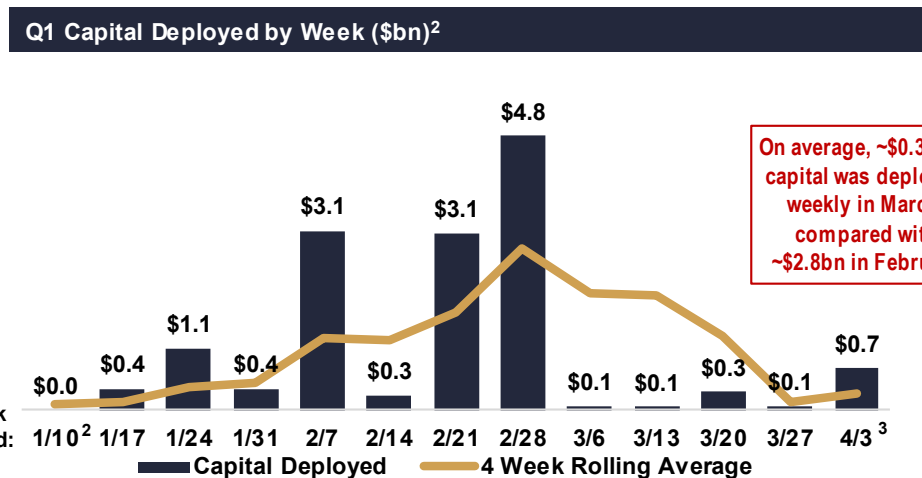


38% m-o-m decline from February 2020

88% m-o-m decline from February 2020



On average, ~4 campaigns were initiated weekly in March, compared to ~7 in February



On average, ~\$0.3bn in capital was deployed weekly in March, compared with ~\$2.8bn in February

Source: FactSet, press reports and public filings as of 3/31/2020.

Note: All data is for campaigns conducted globally by activists at companies with market capitalizations greater than \$500 million at time of campaign announcement.

1 Companies spun off as part of campaign process counted separately.

2 Calculated as of campaign announcement date. Does not include derivative positions. Excludes positions not publicly disclosed.

3 Includes only campaigns prior to 3/31.

# Amid the Chaos, Some Activists Have Ratcheted Up Investment and Activity...

(\$ in billions)

Some U.S. and European activists have taken advantage of the market chaos by escalating existing campaigns and/or increasing stakes in existing positions to increase influence and lower cost bases

Notable Stake Increases in Campaigns					
Activist	Date	Company	% O/S		YTD Performance <sup>2</sup>
ICAHN ENTERPRISES L.P.	3/12	Occidental	2.5%	9.9%	(71.1%)
	3/11	Newell Brands	9.7%	10.7%	(62.1%)
STARBOARD VALUE	3/23	Box	4.9%	7.7%	(28.3%)
	3/2	Mednax	7.5%	9.0%	(37.3%)
Cevian Capital	3/16	Rexel	17.6%	20.1%	(43.5%)
	3/25	CRH	3.1%	<sup>1</sup>	(32.3%)
CIAM	2/28	Telenet	1.3%	<sup>1</sup>	(13.8%)
	3/17	Europcar	5.0%	10.5%	(66.9%)
JANA PARTNERS LLC	3/12	Bloomin' Brands	7.4%	9.2%	(55.6%)
ValueAct Capital	3/26	Lindblad Expeditions	7.4%	9.9%	(65.3%)
FRANKING SQUARE	3/31	Howard Hughes	5.2%	29.8%	(60.2%)
AMBER CAPITAL	3/26	Lagardère	10.6%	16.4%	(43.0%)

Notable Post-COVID-19 Campaign Demands			
Launch Date	Company / Market Cap	Activist	Highlights
5/2017	Lagardère \$4.1bn	AMBER CAPITAL	<ul style="list-style-type: none"> <li>On 3/26, Amber Capital released a letter pushing for renewal of the entire Supervisory Board, simplification of the group structure and suspension of the dividend; Amber also nominated 8 candidates to the Board</li> </ul>
9/2018	SCOR \$8.7bn	CIAM	<ul style="list-style-type: none"> <li>On 3/25 CIAM published a letter which criticized SCOR for having an AGM earlier than usual, in light of the COVID-19 pandemic; Scor later postponed its AGM, citing concerns from the COVID-19 pandemic</li> </ul>
1/2019	ebay \$31.7bn	STARBOARD VALUE	<ul style="list-style-type: none"> <li>On 3/19, Starboard revealed its four-person slate ahead of the 2020 AGM</li> <li>Also pushed incumbent directors to focus on their current CEO search, given the "unique state" of global markets, overwhelmed by the effects of the COVID-19 pandemic</li> </ul>
5/2019	OXY \$44.0bn	ICAHN ENTERPRISES L.P.	<ul style="list-style-type: none"> <li>On 3/12, Icahn filed an 13D/A, in which he reiterated his desire for the Company to encourage takeover bids and his intention to seek Board representation</li> <li>Later in March, Icahn settled for three Board seats, formation of an oversight committee and governance changes</li> </ul>

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Source: Lazard Analysis, FactSet, press reports and public filings as of 3/31/2020.

<sup>1</sup> Previous stake was undisclosed.





<sup>2</sup> As of updated stake announcement date.

# ...While Others Have Reduced Aggression or Suspended Campaigns

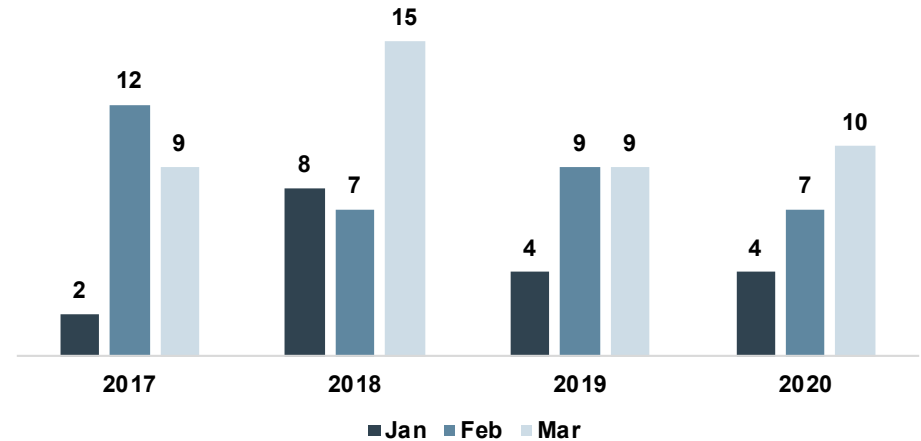
(\$ in billions)

Amid the uncertainty, many activists have opted to postpone, settle or withdraw campaigns

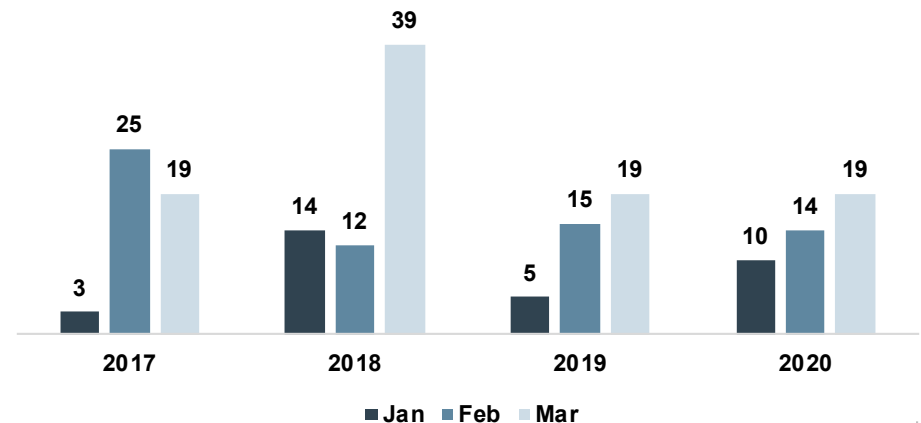
## Examples of Notable Campaign Developments Amid Public Health Crisis

Launch Date	Company / Market Cap	Activist	Highlights
3/2020	 <b>Lufthansa</b> \$4.6bn	<b>BLUEBELL</b>	<ul style="list-style-type: none"> <li>On 3/23, Bluebell announced that it was suspending its campaign after Lufthansa's CEO stated that COVID-19 had a severe, long-lasting impact on its business</li> </ul>
2/2020	 <b>AMERICAN HOMES</b> \$8.5bn	<b>LANDandBUILDINGS</b>	<ul style="list-style-type: none"> <li>On 3/23, L&amp;B withdrew its Director candidate, stating the need for AMH to focus on its business during the current "turmoil"; L&amp;B also said it "will not hesitate to run a proxy contest next year"</li> </ul>
7/2019	 <b>ALTRAN</b> \$4.2bn	<b>ELLIOTT</b>	<ul style="list-style-type: none"> <li>On 3/18, Elliott announced it had ended its opposition to Capgemini's offer for Altran, declaring it will tender its shares, citing "market conditions" for its decision to sell</li> </ul>
11/2019	 <b>hp</b> <b>xerox</b> \$29.8bn	<b>ICAHN ENTERPRISES L.P.</b>	<ul style="list-style-type: none"> <li>On 3/13, Xerox (in which Icahn holds an ~11% stake) halted its hostile takeover attempt, citing prioritization of the "health and safety of its employees, customers, partners and affiliates over and above all considerations, including its proposal to acquire HP"</li> <li>On 3/31, Xerox formally withdrew its slate and tender offer</li> </ul>

## Q1 Monthly Settlements



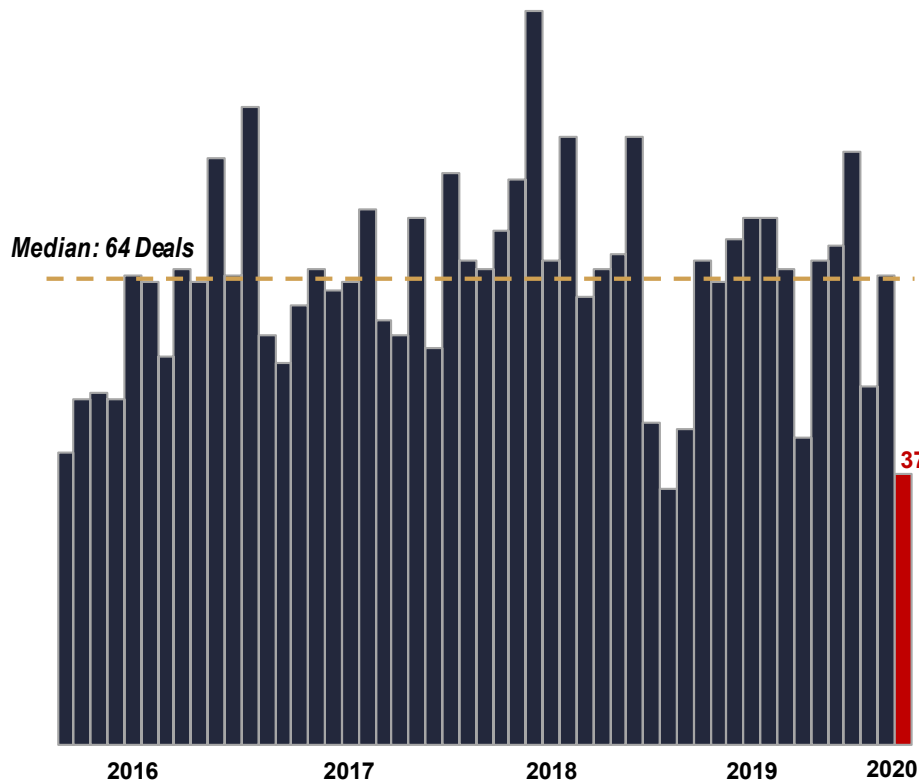
## Q1 Monthly Board Seats Won



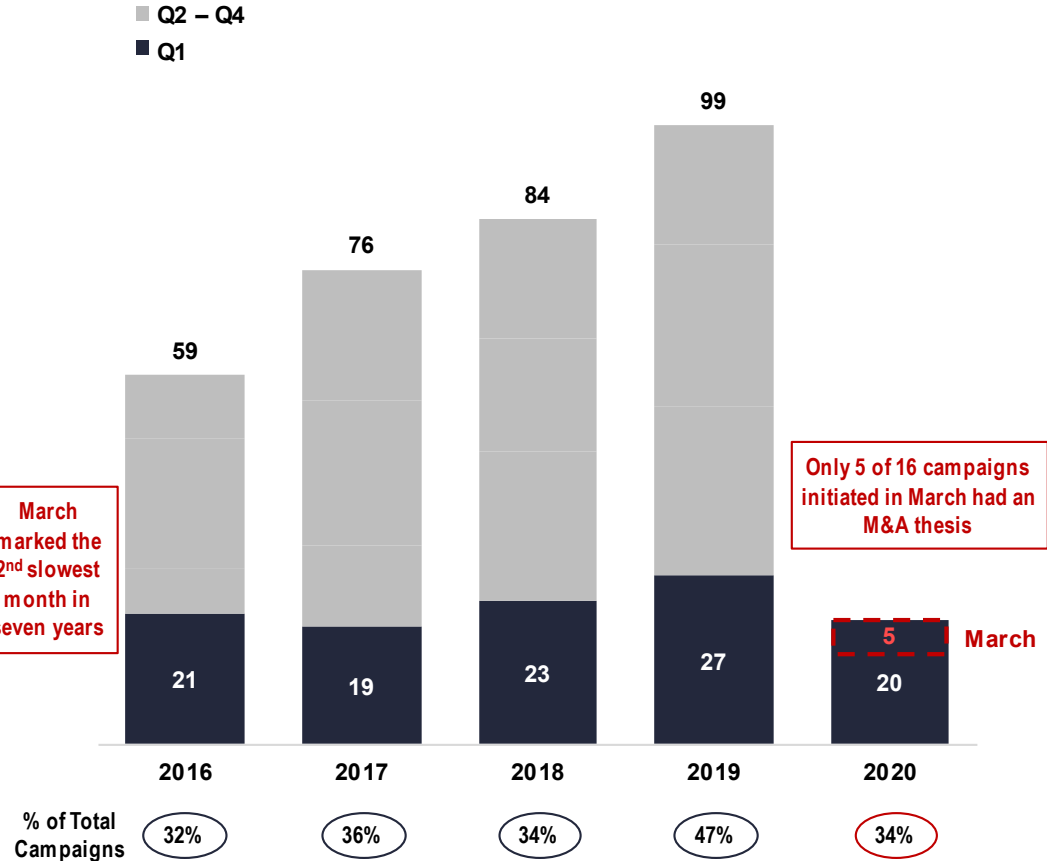
# The Diminishing Activist Toolkit: M&A

With M&A activity sinking to multi-year lows, activists will face near-term challenges in urging for consolidation or divestitures

Historical M&A Activity by Month (Number of Announced Deals)<sup>1</sup>



Campaigns with M&A Thesis

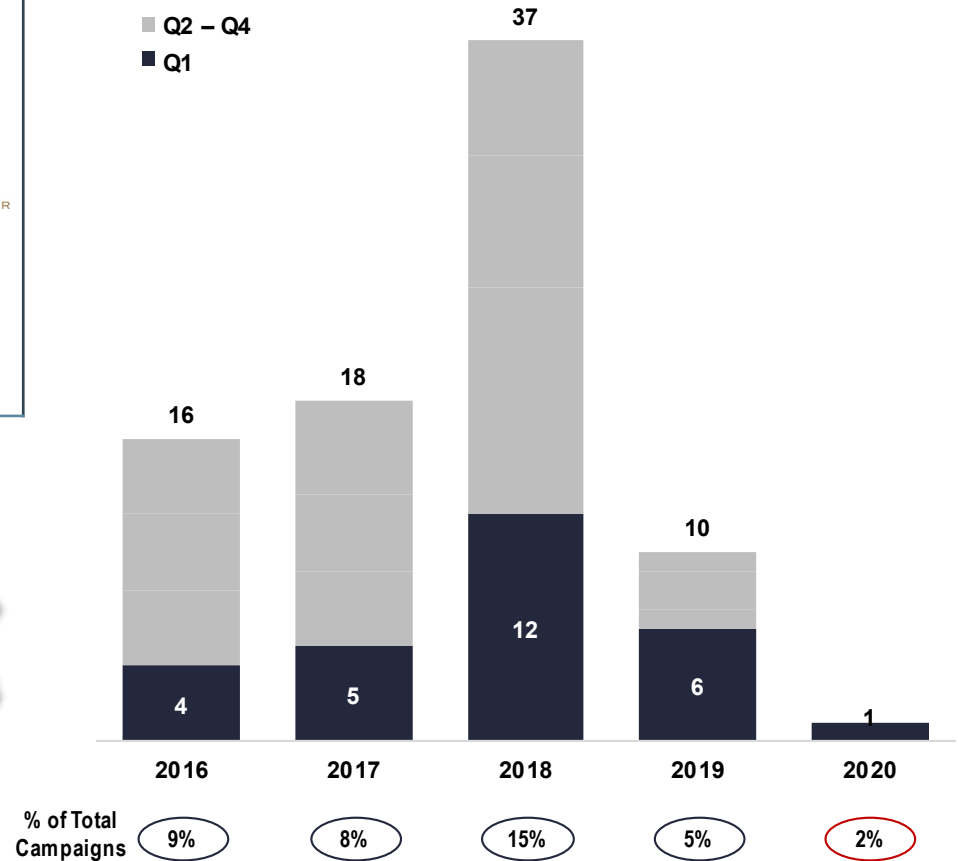


# The Diminishing Activist Toolkit: Capital Returns

Activists are unlikely to focus on dividends or buybacks as a primary campaign objective given corporate focus on cash preservation and government policies opposing return of capital

Examples of Decreased / Suspended Capital Return Policies	
Dividends	Buybacks
<ul style="list-style-type: none"> <li>80 U.S. companies and 201 European companies have suspended or decreased their dividend<sup>1</sup></li> </ul>	<ul style="list-style-type: none"> <li>123 U.S. companies and 48 European companies have announced suspensions or reductions to their share repurchase program<sup>1</sup></li> </ul>

Quarterly Campaigns with Capital Return Thesis







**“Given the economic uncertainty facing many companies and industries, boards may open themselves and their companies up to intense criticism and reputational damage by undertaking repurchases at the current time, especially (although not only) if the company’s workforce has been reduced or has suffered other kind of cutbacks”**

- Impacts of the COVID-19 Pandemic – ISS Policy Guidance, 4/8/2020

# Impact of COVID-19 on Activist Hedge Funds

Certain activist hedge funds have aptly weathered the market turmoil while others are faring worse; reports of certain firms raising capital in this environment highlight desire to take advantage of attractive valuations and value-creation opportunities

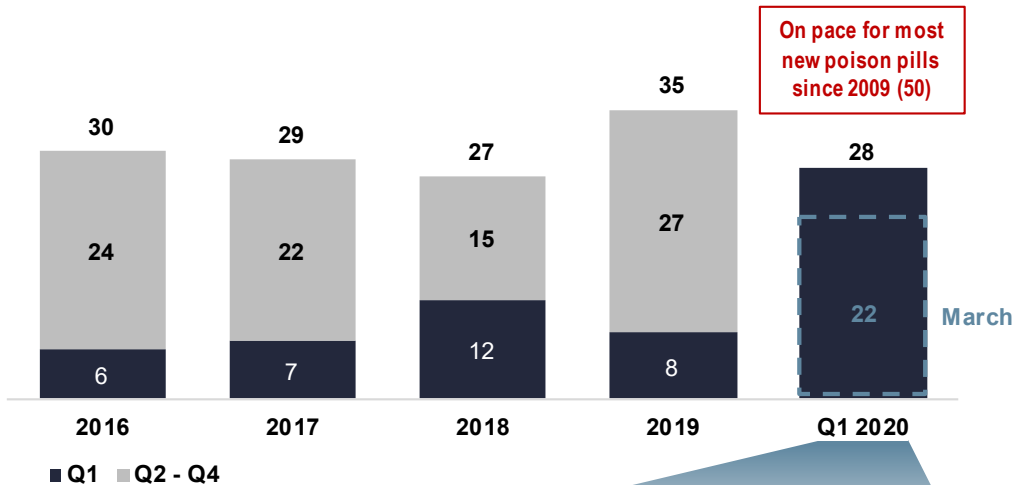
<p><b>Disparate Performance</b></p>	<p><b>Outperformers</b></p>  <p><b>Underperformers</b></p> 	<ul style="list-style-type: none"> <li>• A few leading activist firms reportedly have employed hedging strategies to mute broader market impacts and have outperformed the market             <ul style="list-style-type: none"> <li>– <b>Pershing Square</b> purchased credit protection on investment-grade and high-yield bond indexes to protect against volatility and downside risk</li> <li>– <b>Elliott</b> purportedly has hedges in place that have mitigated downside risk and allowed the firm to be poised to take advantage of bargain opportunities</li> </ul> </li> <li>• Some activist firms reportedly suffered losses as a result of concentrated, outsized positions             <ul style="list-style-type: none"> <li>– <b>Third Point</b> was reportedly down through Q1, much of which was attributed to its large stakes in two hard hit companies: Prudential and EssilorLuxottica</li> </ul> </li> <li>• A number of activist firms reportedly experienced notable declines in Q1             <ul style="list-style-type: none"> <li>– <b>Sachem Head</b> was supposedly down through Q1, compared with a 24% gain in 2019</li> <li>– During March, <b>TCI</b> reportedly endured its worst month since initiation</li> <li>– <b>Trian Partners</b> reportedly saw large decreases in its portfolio through Q1</li> </ul> </li> </ul>
<p><b>Smaller Shops Beginning to Close</b></p>		<ul style="list-style-type: none"> <li>• Smaller activist shops—with lower cash buffers and shorter lock-up periods with LPs—have begun to face significant pressure and capital outflows and may be unable to hold positions long enough for the market to recover             <ul style="list-style-type: none"> <li>– <b>Raging Capital</b>, an activist who recently agitated at Tidewater and Park Aerospace, is reportedly liquidating due to poor performance</li> </ul> </li> </ul>
<p><b>Some Firms Raising Capital</b></p>		<ul style="list-style-type: none"> <li>• Seeking to take positions in healthy companies battered by the virus-induced rout, some activist funds are reportedly raising fresh capital from investors             <ul style="list-style-type: none"> <li>– <b>Engaged Capital</b> reportedly aims to add ~\$250mm to its existing ~\$1.1bn in AUM; primarily plans to augment its existing positions, while investing in a few selective new names</li> <li>– <b>Land &amp; Buildings</b> is reportedly setting up a new vehicle that will accept any amount money clients are willing to commit; the fund wants to make new investments in undervalued companies with strong balance sheets</li> </ul> </li> </ul>

# Return of the Poison Pill

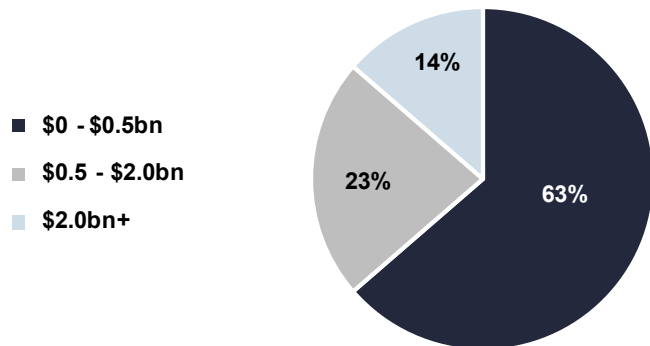
(\$ in billions)

With poison pills being implemented at levels not seen since the financial crisis, companies must strike the right balance between creating a reasonable line of defense, while not compromising shareholder rights

## Historical Poison Pill Activity Implementation <sup>1</sup>



Market Cap. of Companies Enacting Poison Pills in March 2020 (\$bn)<sup>2</sup>



## Key Observations

- **Shareholders and proxy advisors have made it clear that today’s unique market conditions warrant some leeway for companies to protect themselves through the use of poison pills; however such actions must serve a specific purpose**
  - A rapid decline in stock price is seen as a valid reason to implement a poison pill, but the terms of the pill must reflect the decline as a short-term aberration
  - Shareholders and proxy advisors are less likely to take issue with poison pills enacted to preserve NOLs and other similar assets
- **Regardless of market conditions, poison pills with non-market, unreasonable terms will likely be rejected**
  - ISS recently recommended to vote against the Chairman of The Williams Company following the adoption of a poison pill with a 5% ownership trigger, citing it as “highly restrictive” and that it “could negatively impact the market for the company’s shares as the market recovers”
- **The vast majority of poison pills have been implemented by small- and micro-cap companies**
  - In March 2020, the median market capitalization of Company enacting a poison pill was \$0.2bn; only three companies (Occidental, Tempur Sealy and The Williams Company) who implemented poison pills had market capitalizations greater than \$2bn

## Predictions on the Activism Landscape Following the Public Health Crisis

<p><b>Who will be most vulnerable?</b></p>	<ul style="list-style-type: none"> <li>• The pandemic will create a new class of activist targets which will include companies with:                     <ul style="list-style-type: none"> <li>– High cost structures incompatible with “new normal” business models</li> <li>– Complex or vulnerable supply chains</li> <li>– Insufficient scale to generate attractive return profiles</li> <li>– Misaligned portfolios ill-suited to the recovery economy or with unattractive global exposure</li> <li>– Leveraged balance sheets in industries where fortress balance sheets are required</li> <li>– Inappropriate liquidity profiles (e.g., either too much or too little for the new operating environment)</li> </ul> </li> </ul>				
<p><b>Will there be a new activist playbook?</b></p>	<ul style="list-style-type: none"> <li>• Consistent activist playbook pre- and post-pandemic with key themes regarding:                     <ul style="list-style-type: none"> <li>– Streamlining businesses through M&amp;A, optimizing capital allocation, improving operations and cutting costs</li> <li>– Pandemic related business shocks will expose weaknesses across sectors and companies that activists will use to formulate new campaign themes</li> <li>– Governance failings with regard to human capital, executive compensation, disaster preparedness and risk management will be used to garner sympathies with passive investors stewardship teams and other governance focused investors</li> </ul> </li> </ul>				
<p><b>When will activism return?</b></p>	<table border="1"> <tr> <td data-bbox="321 1011 430 1317"> <p><b>Near Term</b></p> </td> <td data-bbox="430 1011 2007 1317"> <ul style="list-style-type: none"> <li>• Extreme volatility and lack of visibility into a return to a stable operating environment is likely to keep most activists focused on their existing portfolio investments; however, selected new campaigns may be initiated</li> <li>• Activists are likely sensitive to being seen as tone-deaf / opportunistic during the pandemic and drawing criticism from skeptical shareholders when they need to coalesce investors around their approach</li> <li>• Activists may take advantage of steep price declines to accumulate new positions for “wait and watch” or may engage privately with management</li> </ul> </td> </tr> <tr> <td data-bbox="321 1317 430 1479"> <p><b>Long Term</b></p> </td> <td data-bbox="430 1317 2007 1479"> <ul style="list-style-type: none"> <li>• Expect a return to public campaigns as operating environment normalizes, economic recovery takes hold and M&amp;A market returns as a viable path to value creation</li> <li>• Late 2020 and early 2021 may see an aggressive ramp of public campaigns as Director nomination windows reopen</li> </ul> </td> </tr> </table>	<p><b>Near Term</b></p>	<ul style="list-style-type: none"> <li>• Extreme volatility and lack of visibility into a return to a stable operating environment is likely to keep most activists focused on their existing portfolio investments; however, selected new campaigns may be initiated</li> <li>• Activists are likely sensitive to being seen as tone-deaf / opportunistic during the pandemic and drawing criticism from skeptical shareholders when they need to coalesce investors around their approach</li> <li>• Activists may take advantage of steep price declines to accumulate new positions for “wait and watch” or may engage privately with management</li> </ul>	<p><b>Long Term</b></p>	<ul style="list-style-type: none"> <li>• Expect a return to public campaigns as operating environment normalizes, economic recovery takes hold and M&amp;A market returns as a viable path to value creation</li> <li>• Late 2020 and early 2021 may see an aggressive ramp of public campaigns as Director nomination windows reopen</li> </ul>
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## Updates From the “Big 3” Index Funds Views on ESG

BlackRock, Vanguard and State Street, which collectively own ~19% of the S&P 500 and are among the most influential investor voices, have made clear the thematic priorities they believe influence long-term corporate performance and the ways they will evaluate them



### “A Fundamental Reshaping of Finance”

- **BlackRock believes that climate change is leading to a “fundamental reshaping of finance” and therefore expects portfolio companies to:**
  - Publish disclosures in line with Sustainability Accounting Board (SASB) industry guidelines
  - Disclose climate risks according to Task Force on Climate-related Disclosure (TCFD) recommendations
  - Be prepared to discuss the UN Sustainable Development Goals in stewardship engagements
- **BlackRock plans on enforcing this belief by voting against Directors at companies that have not implemented SASB and TCFD climate reporting by the end of 2020**
- **Additional actions BlackRock is undertaking to address climate change:**
  - Defaulting to sustainable investment strategies across its main offerings
  - Incorporating ESG as a core risk area in all active portfolio strategies
  - Exiting high-risk sectors across its active portfolio and doubling offering of ESG ETFs
  - Improving transparency around its sustainable product offerings and voting practices

### The Four Principles of Good Governance

- **Board Composition**
  - Boards should be comprised of independent Directors with adequate time and experience
  - Companies should disclose Board diversity on expertise, tenure, and personal characteristics
  - Boards should evolve with long-term strategy
- **Oversight of Strategy and Risk**
  - Oversight of long-term strategy and relevant risks is the Board’s responsibility
  - Boards should understand and be involved in executing the long-term strategy
  - Long-term, material risks should be comprehensively disclosed
- **Executive Compensation**
  - Compensation should be performance linked and should incentivize outperformance in the long term
  - If a company underperforms, executive compensation should reflect that
- **Governance Structures**
  - Governance structure must protect shareholder rights
  - Boards need to hold themselves accountable to shareholders

### The “Responsibility” Factor

- **State Street has indicated that it views ESG issues, such as climate change, labor practices and consumer product safety, as intrinsically tied to shareholder value**
- **State Street will increasingly use its “R-Factor” – the “R” stands for “Responsibility” – tool in its evaluation of whether companies are incorporating ESG into their long-term strategies**
  - “R-Factor” is a proprietary ESG scoring system that uses SASB’s materiality framework and four ESG-related data sources to assign companies a score measuring “the performance of a company’s business operations and governance as it relates to financially material ESG challenges facing the company’s industry”
- **Beginning in 2020, State Street will take “appropriate voting action” against companies with a poor R-Factor score who cannot explain how they will improve their score**
- **Starting in 2022, State Street will begin voting against Directors at companies where their “R-Factor” score lags peers**

## Key Considerations for Navigating Shareholder Engagement in 2020

Despite COVID-19, expectations for shareholder engagement remain high, with investor focus areas expanding to include company directives regarding the pandemic and their impact on human capital, executive compensation and business strategy and operations

### Selected Stakeholder Perspectives

**ISS**

“Boards contemplating defensive maneuvers may want to consider that **an effective response to the pandemic could be more advantageous than any pill.** Although the outbreak of COVID-19 may not have been...predictable...the risk oversight function of many boards will...be under a microscope once the market begins to emerge from this downturn and activists sift through the wreckage for new targets...**Companies that fail to safeguard the health of their employees, or whose business continuity plans prove to be inadequate, could eventually face...opposition.**”

ISS SPECIAL SITUATIONS RESEARCH, 20 MARCH 2020

**STATE STREET**

“We recognize that our engagement conversations will shift to more **immediate ESG issues such as employee health, serving and protecting customers and ensuring the overall safety of supply chains** in the context of the current crisis—the scope and duration of which none of us can predict...we encourage you to communicate to investors COVID-19’s short- and medium-term potential impact to your business, overall operations and supply chains, **including management preparedness and scenario-planning analysis**”

CYRUS TARAPOREVALA, 6 APRIL 2020

**WELLINGTON MANAGEMENT**

“How are we engaging with companies? **Virtually.** On March 11 and 12, for example, we hosted the very first Buy-side Global Consumer CEO Conference. **It was planned months ago as an in-person event, but in less than a week, we pivoted to make it 100% virtual.** We still had 23 consumer company CEOs participate. **We continue to have a steady flow of virtual meetings with companies to ensure we stay close to the changing business dynamics they are experiencing**”

BRENDAN SWORDS, WELLINGTON MANAGEMENT, 11 MARCH 2020

**CITADEL**

“The sell side is doing its best to convert planned corporate access meetings to either conference calls or videoconference calls whenever possible...**The best thing issuers can do for the investment community is keep the lines of communication open and try to provide as much transparency as possible.**”

LISA RUBINGER, ASHLER CAPITAL (CITADEL), 18 MARCH 2020

### Range of Discussion Topics Pertaining to the Public Health Crisis

Financial Impact / Liquidity	Impact of Government Stimulus Package	Operational and Business Continuity	Short- and Long-Term Changes to Capital Allocation
Employee-Related Matters	Customer / Supply Chain Maintenance	Board Oversight of Response Plan and Broader Risk Management	Changes to CEO / Director Compensation

## Sustainable Investing in the Current Market Environment

While it is unclear whether COVID-19 and the steep decline in oil prices will have a longer term effect on the growth of sustainable investing, common themes of sustainable investing—including managing tail-end risks and employee wellbeing—have arguably become more prominent as the pandemic evolves

<p><b>What Now For Sustainability?</b></p>	<ul style="list-style-type: none"> <li>• Certain investors and market observers view sustainability as a “luxury good” viable only in bull markets                     <ul style="list-style-type: none"> <li>– In the near-term, the steep drop in the prices of public equities may invite these market participants to focus on low valuations while placing less emphasis on the ESG practices of a company</li> </ul> </li> <li>• However, over the long term, the COVID-19 pandemic could cause increased focus on sustainability initiatives because investors will desire stable businesses that can withstand sudden macroeconomic shocks                     <ul style="list-style-type: none"> <li>– In particular, the sustainable investment community may heighten its attention on areas such as the health and safety of employees, customers, suppliers and other stakeholders, as well as crisis management planning</li> </ul> </li> </ul>
<p><b>Sustainable Fund Inflows Continue</b></p>	<ul style="list-style-type: none"> <li>• According to Morgan Stanley research, total inflows to sustainable equity ETFs since the start of market turbulence in late February remain positive year-to-date, whereas the top non-ESG focused U.S. equity ETFs have seen substantial outflows</li> </ul>
<p><b>Sustainable Funds Outperformance</b></p>	<ul style="list-style-type: none"> <li>• While still suffering losses due to the rapid market sell-off, ESG-oriented funds outperformed conventional funds globally                     <ul style="list-style-type: none"> <li>– According to Morningstar, during Q1, 70% of ESG-focused funds had returns in the top half of peer groups, while only 11% finished in the bottom quartile<sup>1</sup></li> <li>– In the U.S., 24 out of 26 sustainable index funds had returns superior to those of their closest conventional index fund<sup>1</sup></li> </ul> </li> </ul>

**BlackRock**

*“The concept of long-term sustainability would suggest that companies that come through [COVID-19 pandemic] and do well would be exactly the kinds of companies you would look to as role models...Companies can still demonstrate that they have effective leadership. In times of crisis that becomes more apparent, not less apparent.”*

MICHELLE EDKINS, BLACKROCK, 18 MARCH 2020

**BARCLAYS**

*“There is obviously a lot of volatility and a lot of big open questions just in the very near term that need to get answered...Over the long term, I think if anything [the COVID-19 pandemic] would likely accelerate the focus on ESG from an investor standpoint”*

JEFF MELI, BARCLAYS, 24 MARCH 2020

**Schroders**

*“We have long argued that companies don’t operate in a vacuum. Their success reflects their ability to adapt to challenges and trends in the societies to which they belong. That is more true now than ever; social and environmental challenges, and investment drivers, are increasingly overlapping.”*

ANDREW HOWARD, SCHRODERS, 26 MARCH 2020

## Performance of ESG-Focused Funds During the Public Health Crisis

While it is still too early to determine how sustainable funds will perform throughout the crisis and during the recovery, sustainable funds have had above-market performance in Q1

Q1 Performance of Selected ESG-Oriented Funds<sup>1</sup>

Fund	AUM (\$bn)	Benchmark	Total Return	Performance Relative to Benchmark	Weighting Relative to Benchmark	
					% Tech.	% Power & Energy
Vanguard FTSE Social Index	\$6.8	S&P 500	(20.0%)	(0.4%)	2.1%	(3.7%)
iShares ESG MSCI USA	3.8	S&P 500	(19.0%)	0.6%	0.2%	(0.3%)
iShares ESG MSCI EM	2.0	MSCI EM	(23.8%)	0.9%	2.7%	(1.0%)
Calvert U.S. Lg.-Cap Core Resp. Index	2.0	S&P 500	(18.3%)	1.3%	2.7%	(2.7%)
iShares ESG MSCI USA Leaders	1.7	S&P 500	(18.4%)	1.1%	1.6%	(0.5%)
iShares MSCI KLD 400 Social	1.7	S&P 500	(18.5%)	1.1%	8.8%	(2.6%)
iShares ESG MSCI EAFE	1.6	MSCI EAFE	(22.7%)	0.9%	(0.6%)	0.3%
Xtrackers MSCI USA ESG Leaders Eq.	1.6	S&P 500	(18.2%)	1.4%	1.6%	(0.5%)
iShares MSCI USA ESG Select	1.2	S&P 500	(17.7%)	1.8%	0.4%	(1.4%)
Vanguard ESG International Stock	0.6	MSCI EAFE	(22.9%)	0.6%	6.9%	(4.0%)
<b>Average</b>			<b>(20.0%)</b>	<b>0.9%</b>	<b>2.6%</b>	<b>(1.6%)</b>

### Key Observations

- **The largest ESG-focused funds have generally had performance superior to the relevant benchmarks**
  - On average, the largest ESG-oriented funds returned (20.0%) over Q1, an outperformance of their benchmarks by an average of 0.9%
- **ESG-oriented funds have tended to fair better due to mandates generally preventing holdings in Power and Energy companies, coupled with the outsized representation of Technology companies in ESG indices**
  - Top ESG-centric funds were on average overweight Technology companies and underweight Power and Energy companies by 2.6% and (1.6%), respectively
  - During Q1, Technology companies have outperformed the market by (9.5%) while Power and Energy companies have lagged the market, returning (9.5%) and (27.5%) respectively<sup>2</sup>