aperio
by BlackRock

Diversity Strategies

Diversity, Equity, and Inclusion (DEI) | Racial Justice | Women's Inclusion

2024

Objective

To address a broad range of diversity issues by combining thematic exclusions, company scoring, and portfolio tilting. Three independent, targeted strategies—Diversity, Equity, and Inclusion (DEI); Racial Justice; and Women's Inclusion—combine these diversity building blocks as a starting point for clients interested in expressing values tied to diversity.

Solution

Aperio's Diversity Strategies evaluate an initial universe of publicly traded companies on a broad range of diversity issues, including policies and management, performance, and controversies. Each strategy focuses on a specific area through the combination of:

- Thematic exclusions
- Tilting portfolios to have higher exposure to companies that are more aligned with specific strategy criteria
- Proxy voting policies that may vote in favor of issues related to DEI

Exclusions

Each strategy contains bundled exclusions that address that strategy's specific objectives. The intent is to eliminate companies that engage in business activities that investors may believe perpetuate discriminatory behaviors or impede diversity progress.

	DEI	Racial Justice	Women's Inclusion
No women on company board	●		●
No racial or ethnic minorities on US board	●	●	
Private prisons		●	
Prison-related services		●	
Predatory lending		●	
Civilian firearms production		●	
Community Reinvestment Act (CRA)–threshold rating		●	
No female executives			●
Pornography (>10% revenue)			●

The strategies and exclusions described are focused specially on diversity issues and are subject to change. For a more comprehensive list of strategies, tilts, and exclusion options, please see our Values-Alignment Menu.

Sources: Internal data, MSCI, ISS, American Friends Service Committee.

For illustrative purposes only.

For values-aligned strategies, Aperio is dependent upon third-party data that may be incomplete, inaccurate, or unavailable, which could adversely affect the assessment of companies based on these values-aligned factors. Aperio cannot guarantee the accuracy of the data disclosed by companies or the estimates made by third-party vendors when data are missing.

MKTGH0724U/S-3721501-1/4

Scoring Companies

Our diversity strategies evaluate companies on themes appropriate to the specific strategy. Companies with higher scores are more aligned with specific strategy criteria are emphasized during the portfolio construction process, tilting the portfolio to have higher exposure to higher-scoring companies, relative to the benchmark.

Components		DEI	Racial Justice	Women's Inclusion	Methodology
Diversity policy and management		●	●	●	Favor companies that promote diversity in recruitment and training, with a senior executive or higher level of oversight.
Diversity controversies		●	●	●	Assesses companies on their involvement with issues such as a history of discrimination-related legal cases; widespread or egregious inequities based on sex, race, or ethnicity; resistance to improved practices, and criticism by non-governmental organizations or other third-party observers.
Diversity performance	Racial and ethnic board members	●	●		Appraises companies' leadership and board composition based on racial and ethnic or gender diversity.
	Gender diversity performance	●		●	The scoring process favors companies with women in leadership positions and women and racial and ethnic minorities on their boards.
Human rights policies				●	Tilt toward companies that have adopted effective human rights policies, have effective processes to monitor these policies, and are signatories to the United Nations Global Compact.

For illustrative purposes only.

Aperio evaluates companies' records on values-aligned issues by using a variety of third-party data, which has inherent limitations. Aperio cannot guarantee the accuracy of the data disclosed by companies or the estimates made by data providers when data are missing. This type of data is subject to inherent limitations and may be stale, inaccurate, and/or approximate.

Sources: Internal data, MSCI, ISS, Equileap.

Proxy Voting

Proxy voting offers an opportunity for shareholders to vote in stockholder meetings on resolutions, such as the election of directors, executive compensation, and shareholder proposals.

Example: In September 2023, the SRI Guidelines recommended a vote AGAINST the five incumbent Board Directors of FedEx on the Nominating Committee due to a lack of diversity on the Board.

Important notes

Aperio Group, LLC, provides this material for informational purposes only and for the sole use of the recipient. The information contained herein is provided with the understanding that we are not engaged in rendering legal, accounting, or tax services. We recommend that all investors seek out the services of competent professionals in these areas. The strategies and/or investments referenced may not be suitable for all investors, because the appropriateness of a particular investment or strategy will depend on an investor's individual circumstances and objectives. None of the examples should be considered advice tailored to the needs of any specific investor or a recommendation to buy or sell any securities. The fees and expenses Aperio charges may be higher than the fees and expenses of other investment advisors and may offset profits. Additional information about the firm, and our fees and expenses, is included in our Form ADV.

Investing involves risk, including possible loss of principal. Asset allocation and diversification may not protect against market risk, loss of principal, or volatility of returns. There is no guarantee that any investment strategy discussed herein will work under all market conditions. Many factors affect performance, including changes in market conditions and interest rates, as well as other economic, political, or financial developments.

You should not assume that investment decisions we make in the future will be profitable or will equal the investment performance of the past. With respect to the description of any investment strategies, simulations, or investment recommendations, we cannot provide any assurances that they will perform as expected and as described in our materials. Past performance is not indicative of future results.

Opinions and estimates offered herein constitute the research of Aperio and are subject to change. All opinions and estimates are based on assumptions and limitations, all of which are difficult to predict and many of which are beyond the control of Aperio..

Aperio Methodology & Scoring

Aperio uses both proprietary internal "social scores" as well as scores or ratings from third-party data providers depending on the values-aligned strategy. For those strategies where an Aperio social score is used, Aperio assembles data from ESG (environmental, social, and governance) data vendors and other organizations, generally on an annual basis. This data is used to score companies on a wide range of topics and is the basis for creating values-aligned portfolios. Data Elements are combined into preconfigured, standard Aperio Strategy and Tilt options and are also used to create customized, client-specific scoring profiles). The output from these profiles is generally referred to as "Social Scores."

To calculate Aperio Social Scores, Data Elements are evaluated (and quantified if needed), z-scored (statistically compared to the average value of other companies) and combined based on assigned weights into issue area "Component Scores." Companies generally have multiple scores that feed into a Social Score, with a different score for each component. Component Scores are aggregated at profile-assigned weights and are used to calculate Company Social Scores. Company scores are calculated across the entire Aperio universe and range from 0 to 100. Higher Company Social Scores reflect a company more aligned with the specific values in the strategy, and lower scores represent a company less aligned with the selected values. When used as a tilt in the construction of portfolios, higher scores can result in an overweighting of companies and lower scores can result in an underweighting of companies in a portfolio.

Social Scores for each strategy consist of the weighted average of the relevant Component Scores for each company. Each strategy—whether a standard strategy or client-specific option—generates a different set of company scores. These strategy-specific scores are usually referred to by their strategy name, such as "DEI Score," "Aperio SRI Score," etc.

We are happy to provide further details on how third-party and Aperio Social Scores are compiled and used.

In some cases, Aperio uses scores or ratings from third-party data providers. Aperio cannot guarantee the processes or methodologies for rating evaluations conducted by external providers.

Sources of Data

Aperio sources of data include MSCI ESG Research and ISS ESG, and other data providers as relevant, as well as industry classifications (usually GICS® classifications). In addition, for certain Data Elements, Aperio may source information from other sources, including advocacy organizations. Each of these data sources relies on a number of original sources for its data gathering. Three primary sources for data gathering are:

Mandatory company disclosures: In certain cases, companies must comply with regulatory requirements for the disclosure of information. This kind of information can range from financial information to information the US Environmental Protection Agency requires company facilities to disclose. The advantage of this information is that it is comprehensive across the universe of companies. Unfortunately, in many issue areas, no mandatory disclosure applies.

Voluntary company disclosures: Much of the information available is voluntarily disclosed by companies, often in corporate sustainability reports or in sustainability or responsibility sections of their websites. This information can be more difficult to incorporate into evaluations and ratings because all companies do not disclose all information, and even when they disclose similar issues, companies are not consistent in how they do so.

Third-party information: In certain instances, third parties may have information about a company that does not rely on the information disclosed by the company. For instance, a regulatory agency that fines a company has that information independent of any disclosures by the company.

Data that Aperio receives from its vendors and other information sources may include metrics constructed as a combination of these concepts. For instance, there is mandatory disclosure of certain kinds of international operations, including registered subsidiaries. When this information is combined with evaluations of countries' political and civil liberties provided by a nongovernmental organization (NGO), we have a hybrid Data Element. In another example, we use ratings by the Human Rights Campaign (HRC) as an indication of a company's approach to sexual-orientation issues. HRC gathers information from companies, including by conducting surveys (voluntary disclosure), and then scores the companies. So, this is a combination of voluntary disclosure and evaluation.

NOTE: When assembling data into a Social Score, Aperio determines how to score missing data based on the reason and context for the missing Data Element value. When the Data Element is based on voluntary disclosure and the data vendor sought to gather the Data Element from the company, but the element is null, the company will receive the lowest available score. When the Data Element was not researched by the vendor because it is not relevant to the company's industry, and Aperio agrees it is not relevant, then the company is assigned the highest possible score. When the vendor did not research the Data Element for the company based on its not being relevant, but Aperio disagrees with this assessment, the company is assigned an average score for the sector.

Data Frequency, Updates & Limitations

Aperio updates its ESG data for the Values-Alignment Menu annually. Data Elements may be updated during the year as our data providers receive new data from either the company or publicly available sources, and this will not be captured in our processes until Aperio's next annual data update. Aperio updates all exclusions and scoring profiles annually, usually during the first calendar quarter. As accounts are rebalanced, the updated data will be incorporated, usually during the second calendar quarter.

Because the data sets are not updated in real time, there may be a lag between a change at the company and when the change flows into the data set, and again when it flows into the portfolio during a rebalance. Aperio handles all updates consistently and does not override the approved, vendor-/source-provided data sets.

Aperio's standard strategies may evolve over time, including changes in scoring and exclusionary screening criteria. Clients will generally be consulted if these changes cause significant changes to their portfolios resulting in significant tax consequences or altered risk profiles.

aperio
by BlackRock

Important notes (cont.)

Aperio is dependent upon data and information that may be incomplete, inaccurate, or unavailable, which could adversely affect the assessment of companies based on ESG factors. Aperio cannot guarantee the accuracy of the data disclosed by companies or the estimates made by third-party vendors when data are missing. As a result, Aperio's Social Scores and third-party scores are based on information with inherent limitations. All scores should be viewed solely as directional, and their accuracy is not guaranteed.

Portfolio Management Process

Client-selected values-aligned strategies, tilts, and/or exclusions are incorporated into portfolio optimization. These selections may alter Aperio's ability to track a portfolio's benchmark. The estimated deviation from the benchmark is measured using forecast tracking error as calculated by the Barra Risk Model. This deviation can be significant.

Data Licensing

Data from MSCI ESG Research LLC, or its affiliates are used under license. MSCI ESG Research does not warrant or guarantee the originality, accuracy and/or completeness, of any data herein and expressly disclaim all express or implied warranties, including those of merchantability and fitness for a particular purpose. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such, nor should it be taken as an indication or guarantee of any future performance, analysis, forecast or prediction. None of the ESG Parties shall have any liability for any errors or omissions in connection with any data herein, or any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

Equileap is a registered trademark of Stichting Equileap Foundation. Aperio licenses data from Equileap on an "as-is," "where-is" basis. Equileap makes no representation or warranties of any kind regarding the data provided. The strategy referenced herein is not sponsored, endorsed, or promoted by Equileap, and Equileap bears no liability with respect to any such strategies, or any Equileap data upon which such strategies are based. No further distribution of Equileap data is permitted without Equileap's express written consent.

aperio
by BlackRock