



Diversity Strategies

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



OBJECTIVE To address the broad range of diversity issues through three independent, targeted strategies—Diversity, Equity, and Inclusion (DEI); Racial Justice; and Women’s Inclusion.



SOLUTION Aperio’s Diversity Strategies evaluate an initial universe of publicly traded companies on a broad range of diversity issues. Each strategy narrowly focuses on a specific area through:

- Thematic exclusions that eliminate “bad actors,”
- Scoring that emphasizes companies that are directionally “better,” and
- Proxy voting and shareholder engagement for investors seeking additional impact.

EXCLUSIONS

		DEI	Racial Justice	Women’s Inclusion
Each strategy contains exclusions that address the specific objective. The intent is to eliminate companies that engage in business activities that perpetuate discriminatory behaviors or impede diversity progress.	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)			✓

SCORING



Components	DEI	Racial Justice	Women's Inclusion			
We evaluate companies on policies, performance, and controversies across four major themes.	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. The scoring process favors companies with women in leadership positions and women and racial and ethnic minorities on their boards.
		Gender Diversity Performance	✓		✓	
Human Rights Policies				✓	Tilt towards companies that have adopted effective human rights policies, have effective processes to monitor these policies, and are signatories to the United Nations Global Compact.	

ACTIVE OWNERSHIP

Proxy Voting

Aperio views proxy voting as both a fiduciary duty and an additional tool for clients to express their values and create impact with public equities. We vote on clients' behalf on corporate proxy ballots, amplifying their voices on director elections and shareholder resolutions related to social and environmental issues.

Example: In June 2020, Aperio SRI/ESG accounts voted FOR a shareholder resolution with Fastenal. The resolution asked that Fastenal publish a report assessing the diversity of the company's workforce. 61.1% of Fastenal shares voted FOR.

Shareholder Advocacy

Clients can increase their impact by partnering with advocacy groups—such as As You Sow—and sponsoring resolutions that address significant diversity issues.

Example: In 2019, Aperio clients sponsored a shareholder resolution organized by As You Sow with Gilead Sciences, requesting the company report on its Diversity, Equity, and Inclusion programs. As You Sow reports that, after dialogue, Gilead agreed to substantively increase its disclosures related to its workplace equity program, including the public disclosure of demographic data of employees by gender, race/ethnicity, disability, veteran status, and LGBTQ+, as well as its EEO-1 summary data.

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ENVIRONMENTAL
SOCIAL
GOVERNANCE

DEI Strategy

Exclusions & Scoring



To address diversity, equity, and inclusion issues within companies, including gender and minority representation and diversity in recruitment and training policies.

Aperio’s Diversity, Equity, and Inclusion (DEI) Strategy evaluates an initial universe of publicly traded companies on a broad range of diversity, equity, and inclusion issues.

<p>EXCLUSIONS</p> <p><i>Remove companies that do not align with values</i></p>	<p>Theme</p> <p>Diversity in Leadership</p> <p>Employment and Opportunities for Promotion</p>	<p>Exclusion Element</p> <ul style="list-style-type: none"> • No Women on Company Board • No Racial or Ethnic Minorities on US Boards
<p>SCORING</p> <p><i>Invest more in companies with higher Aperio Social Scores</i></p>	<p>Theme</p> <p>Positions in Leadership</p> <p>Employment and Opportunities for Promotion</p> <p>Protection of Rights</p>	<p>Scoring Element</p> <ul style="list-style-type: none"> • Women in Senior Management, and Racial or Ethnic Minorities on US Board • Workplace Diversity Policies • Diversity in Recruitment and Training • Diversity Controversies
<p>ACTIVE OWNERSHIP</p> <p><i>Influence companies you own to change behaviors through proxy voting and/or shareholder resolutions</i></p>	<p>Sample Issues</p> <ul style="list-style-type: none"> • Board Diversity • Gender Pay Gap • Disclosure of Diversity Data • LGBTQ Policies 	<p>Shareholder Advocacy</p> <p>Clients can also increase their impact by partnering with advocacy groups, such as As You Sow, and sponsoring resolutions that address significant DEI issues.</p>



Hypothetical Aperio DEI Portfolio vs. Benchmark

Portfolio Characteristics	S&P 500	Russell 3000	MSCI ACWI
Forecast Tracking Error (%)	0.52	0.52	0.68
Forecast Beta	1.00	1.00	1.00
Number of Stocks	307	449	500
Social Score Tilt (%)	+15	+15	+15
Average % of Women on Board*	1.1x	1.1x	1.1x
Average % of Racial or Ethnic Minorities on US Board*	1.1x	1.2x	1.1x

*The average percentage in a hypothetical Aperio DEI portfolio ÷ the average percentage in the respective benchmark.

The information in this table is shown as of 09/30/2020. The hypothetical portfolios are not based on an actual Aperio portfolio and are being shown for illustrative purposes only. It should not be assumed that clients who actually invest in an Aperio DEI portfolio will have the same results reflected above. The hypothetical portfolio consists of securities that were selected by Aperio's optimizer based on the benchmark indicated in the column headings. This table is presented solely as an example and should not be considered investment advice. Aperio has the benefit of hindsight when putting together the hypothetical portfolios, and there is no guarantee that the firm will make the same selections when putting together a similar portfolio for a client. This selection did not take into account any client's overall investment objectives or restrictions that may be imposed.

Sample Excluded Companies in the Aperio DEI Strategy

Company	Sector	Reason
MONSTER BEV CORP	Consumer Staples	No Racial or Ethnic Minorities on US Board
LULULEMON ATHLETICA INC	Consumer Discretionary	No Racial or Ethnic Minorities on US Board
SINCLAIR BROADCAST GROUP	Communication Services	No Women on Company Board
J & J SNACK FOODS CORP	Consumer Staples	No Women on Company Board

Data is as of 09/30/2020.

Top Overweights and Underweights in a Hypothetical Aperio DEI Portfolio

	Company	Sector	Active Weight
5 Largest Overweights	ACCENTURE PLC	Information Technology	0.70%
	AMERICAN WATER WORKS COMP	Utilities	0.70%
	CUMMINS INC	Industrials	0.51%
	COCA-COLA CO	Consumer Staples	0.45%
	MASTERCARD INCORPORATED	Information Technology	0.42%
5 Largest Underweights	INTERNATIONAL BUSINESS MA	Information Technology	-0.26%
	EXXON MOBIL CORPORATION	Energy	-0.27%
	FIDELITY NATIONAL INFO SE	Information Technology	-0.27%
	THERMO FISHER SCIENTIFIC	Health Care	-0.43%
	BERKSHIRE HATHAWAY INC	Financials	-1.02%

Data is as of 09/30/2020. Sample all-cash-funded portfolio benchmarked to the S&P 500 index.

The optimization process will overweight stocks with high Social Scores; however, not all stocks in the portfolio will have high Social Scores (otherwise, the portfolio would be too concentrated).

Note: Only companies that are eligible for purchase under the Aperio DEI Strategy were considered in the largest overweights and underweights example above.

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The MSCI ACWI Index is an equity benchmark for global stock performance. It is a capitalization-weighted index covering large and midsize companies. The index includes approximately 3,000 stocks from 23 developed-market countries and 26 emerging-market countries.

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Racial Justice Strategy

Exclusions & Scoring



OBJECTIVE

To address issues around racial justice—from assessing and promoting racial diversity within companies to identifying issue areas that perpetuate discrimination and may negatively impact communities of color.

Aperio’s Racial Justice Strategy evaluates an initial universe of publicly traded companies on a broad range of racial justice issues.



SOLUTION

<p>EXCLUSIONS</p> <p><i>Remove companies that do not align with values</i></p>	<p>Theme</p> <p>Diversity in Leadership</p> <p>Systems That Perpetuate Racial and Ethnic Injustices</p> <p>Exclusion Element</p> <ul style="list-style-type: none"> • No Racial or Ethnic Minorities on US Boards • Private Prisons • Prison-Related Services • Predatory Lending • Civilian Firearms Production • Community Reinvestment Act (CRA) - Threshold Rating
<p>SCORING</p> <p><i>Invest more in companies with higher Aperio Social Scores</i></p>	<p>Theme</p> <p>Employment and Opportunities for Promotion</p> <p>Positions in Leadership</p> <p>Protection of Rights</p> <p>Scoring Element</p> <ul style="list-style-type: none"> • Workplace Diversity Policies • Diversity in Recruitment and Training • Racial or Ethnic Minorities on US Boards • Diversity Controversies
<p>ACTIVE OWNERSHIP</p> <p><i>Influence companies you own to change behaviors through proxy voting and/or shareholder resolutions</i></p>	<p>Sample Issues</p> <ul style="list-style-type: none"> • Board Diversity • Disclosure of DEI (Diversity, Equity, and Inclusion) Data • Civilian Firearms • Use of Prison Labor <p>Shareholder Advocacy</p> <p>Clients can also increase their impact by partnering with advocacy groups, such as You Sow, and sponsoring resolutions that address significant racial justice issues.</p>

Hypothetical Aperió Racial Justice Portfolio vs. Benchmark

Portfolio Characteristics	S&P 500	Russell 3000	MSCI ACWI
Forecast Tracking Error (%)	0.60	0.46	0.67
Forecast Beta	1.00	1.00	1.00
Number of Stocks	280	450	500
Social Score Tilt (%)	+15	+15	+15
Average % of Racial or Ethnic Minorities on US Board*	1.2x	1.2x	1.1x

*The average percentage in a hypothetical Aperió Racial Justice portfolio + the average percentage in the respective benchmark.

The information in this table is shown as of 09/30/2020. The hypothetical portfolios are not based on an actual Aperió portfolio and are being shown for illustrative purposes only. It should not be assumed that clients who actually invest in an Aperió Racial Justice portfolio will have the same results reflected above. The hypothetical portfolio consists of securities that were selected by Aperió's optimizer based on the benchmark indicated in the column headings. This table is presented solely as an example and should not be considered investment advice. Aperió has the benefit of hindsight when putting together the hypothetical portfolios, and there is no guarantee that the firm will make the same selections when putting together a similar portfolio for a client. This selection did not take into account any client's overall investment objectives or restrictions that may be imposed.

Sample Excluded Companies in the Aperió Racial Justice Strategy

Company	Sector	Reason
NORTHROP GRUMMAN CORP	Industrials	Civilian Firearms Production
FIRSTCASH INC	Financials	Predatory Lending
CORECIVIC INC	Real Estate	Private Prisons
MONSTER BEV CORP	Consumer Staples	No Racial or Ethnic Minorities on US Board

Data is as of 09/30/2020.

Top Overweights and Underweights in a Hypothetical Aperió Racial Justice Portfolio

	Company	Sector	Active Weight
5 Largest Overweights	MASTERCARD INCORPORATED	Information Technology	0.89%
	ILLINOIS TOOL WORKS INC	Industrials	0.73%
	ACCENTURE PLC	Information Technology	0.72%
	COLGATE-PALMOLIVE CO	Consumer Staples	0.41%
	HORMEL FOODS CORP	Consumer Staples	0.39%
5 Largest Underweights	EXXON MOBIL CORPORATION	Energy	-0.30%
	WALMART INC	Consumer Staples	-0.36%
	ORACLE CORP	Information Technology	-0.36%
	JOHNSON & JOHNSON	Health Care	-0.38%
	BERKSHIRE HATHAWAY INC	Financials	-1.20%

Data is as of 09/30/2020. Sample all-cash-funded portfolio benchmarked to the S&P 500 index.

The optimization process will overweight stocks with high Social Scores; however, not all stocks in the portfolio will have high Social Scores (otherwise, the portfolio would be too concentrated).

Note: Only companies that are eligible for purchase under the Aperió Racial Justice Strategy were considered in the largest overweights and underweights example above.

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Women's Inclusion Strategy

Exclusions & Scoring



OBJECTIVE

To address women's inclusion issues within companies, including gender diversity in leadership roles, human rights policies (synonymous with women's rights), and exclusion of pornography that objectifies and perpetuates violence against women.

The Aperio Women's Inclusion Strategy evaluates an initial universe of publicly traded companies on a broad range of gender issues.

<p>EXCLUSIONS</p> <p><i>Remove companies that do not align with values</i></p>	<table border="1"> <thead> <tr> <th>Theme</th> <th>Exclusion Element</th> </tr> </thead> <tbody> <tr> <td>Positions in Leadership</td> <td> <ul style="list-style-type: none"> No Women on Company Board No Female Executives* </td> </tr> <tr> <td>Gender Exploitation</td> <td> <ul style="list-style-type: none"> Pornography** </td> </tr> </tbody> </table>	Theme	Exclusion Element	Positions in Leadership	<ul style="list-style-type: none"> No Women on Company Board No Female Executives* 	Gender Exploitation	<ul style="list-style-type: none"> Pornography** 		
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* Executives are defined by the company or are those individuals who form the company executive committee/board or management committee/board or equivalent.

** Pornography exclusions are implemented for companies with more than 10% of revenue generated from these activities.



SOLUTION

Hypothetical Aperio Women's Inclusion Portfolio vs. Benchmark

Portfolio Characteristics	S&P 500	Russell 3000	MSCI ACWI
Forecast Tracking Error (%)	0.68	0.59	0.82
Forecast Beta	1.00	1.00	1.00
Number of Stocks	327	450	500
Social Score Tilt (%)	+20	+20	+20
Average % of Women on Board*	1.1x	1.1x	1.1x
Average % of Female Executives*	1.2x	1.3x	1.3x

* The average percentage in a hypothetical Aperio Women's Inclusion portfolio + the average percentage in the respective benchmark.

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Sample Excluded Companies in the Aperio Women's Inclusion Strategy

Company	Sector	Reason
Nestlé S.A.	Consumer Staples	No female executives
Tencent Holdings Ltd.	Communication Services	No female executives
Berkshire Hathaway Inc.	Financials	No female executives
Intel Corporation	Information Technology	No female executives

Data is as of 03/31/2020.

Top Overweights and Underweights in a Hypothetical Aperio Women's Inclusion Portfolio

	Company	Sector	Active Weight
5 Largest Overweights	Accenture PLC	Information Technology	1.07%
	American Water Works Comp	Utilities	0.80%
	Microsoft Corporation	Information Technology	0.59%
	Coca-Cola Company	Consumer Staples	0.58%
	Cummins, Inc.	Industrials	0.48%
5 Largest Underweights	Booking Holdings Inc.	Consumer Discretionary	-0.20%
	International Business Machines Corp	Information Technology	-0.21%
	Zoetis Inc.	Health Care	-0.21%
	Altria Group, Inc.	Consumer Staples	-0.23%
	Oracle Corporation	Information Technology	-0.24%

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