

Issue Brief: Place-Based Tilts

Aperio's place-based strategies offer the opportunity for community foundations, endowments, nonprofits, and other clients with a geographic focus to incorporate these place-based values into equity portfolios. We accomplish this by combining geo-tagged job postings data and company headquarters information to emphasize companies with greater ties to specific geographies.¹

How Aperio's place-based tilts work

A place-based strategy identifies and tilts toward companies present in a specified geographic region based on one or both of the following:

- **Job postings:** Available at the state, county, city, and zip code levels, job postings data are used as a proxy for economic involvement in a region. Companies with more job postings in the specified region are preferred to those with fewer or no job postings in the region.
- **Headquarters:** While company facilities indicate an economic tie and investment in a region, the presence of a company's headquarters frequently provides a close economic tie between the company and the region, including the presence of some of the highest-paid employees in the company. Companies headquartered in the specified region score higher than those headquartered elsewhere. Companies are headquartered in only one state.

Aperio suggests the following standard options for constructing a place-based tilt:

- Job postings data only
- Headquarters data only
- Job postings data and headquarters data

Whichever scoring approach is selected, the strategy targets a higher portfolio-level, weighted-average place-based score relative to the benchmark while minimizing tracking error. The calculation of a place-based score is dependent on the approach selected. It may be based only on job postings data, only on headquarters data, or on both types of data. This method results in a portfolio that tilts toward and emphasizes companies with a presence in the geographic area of interest.

The geographic focus of portfolios, and the desired amount of emphasis on companies tied to that region (the tilt intensity), are customized to each client based on their values and investment goals. The place-based strategy can be used alone or in combination with other Aperio strategies, tilts, or exclusions. As with all Aperio strategies, the client portfolio is optimized to reflect trade-offs in values, tracking error, and taxes (when applicable) upon each rebalance.

Place-based tilts: important considerations

There are several considerations to keep in mind when using job postings data in place-based investing. First, job postings data captures just that—a job posting. Regional job postings may lead to increased employment levels or better employment opportunities for local citizens, but there is no guarantee that a posted position will be filled. Moreover, data sets do not delineate between a part-time or full-time position, and the data do not identify or otherwise account for high-turnover positions.

¹ Aperio uses third-party data for this strategy. For scoring and evaluation of companies, Aperio is dependent upon data and information that may be incomplete, inaccurate, or unavailable, which could adversely affect the assessment of companies. Aperio cannot guarantee the accuracy of the data disclosed by companies or the estimates made by third-party vendors such as MSCI ESG when data are missing.

Additionally, not all jobs are equal in how they may contribute to the local economy or benefit individual employees. Minimum-wage positions in fast food restaurants and retail stores appear in the available data as equivalent to management and executive positions. A low-salary job might be a means to earn extra cash for a high school student in one region, whereas it can provide income, health insurance, and other benefits for an entire family in another. While Aperio's default approach is to use the entire data set, which treats all job postings as equal, when clients are interested, we can attempt to correct for some of these issues by adjusting scoring by sector, industry, sub-industry, or region. Aperio collaborates with the client to best reflect their objectives in making these adjustments.

In addition to job postings, the location of a company's headquarters may be an indicator of regional growth. Companies often have a sizable presence in the communities where they are headquartered. In fact, our data suggest that companies headquartered in a state tend to be among the higher job posters within the state, though this is not guaranteed. Furthermore, some of a company's most highly paid employees are likely to be employed at their headquarters.

Finally, place-based tilts can be combined with other values-aligned issues such as racial justice, lower carbon emissions, and human rights, among other topics. Various exclusions can be used to further align a portfolio with an organization's mission and areas of focus.

Place-based tilts: reporting impact

This strategy was originally designed in response to client requests to tilt portfolios toward companies with a greater positive economic impact in a specified region. Aperio's reporting on the percentage of a portfolio with exposure to a given region has two components: the percentage of the portfolio invested in companies that are headquartered in the region and the portfolio's ownership for the number of job postings, which is a size-dependent metric, with larger portfolios having a larger ownership.

Shareholder engagement: Historically, shareholder resolutions and proxy voting have focused on environmental, social, and governance issues, and not geography. For interested clients, Aperio can forward engagement opportunities for companies headquartered in the target region. Note, however, that many of the engagement opportunities apply to issues that effect a company broadly, and not only in a specific region.

Next steps: Aperio is committed to working with its clients to provide the best possible alignment between their values and available investment strategies. While we have a standard approach to place-based investing, any implementation is fully customizable. Aperio welcomes client comments and suggestions on possible ways to expand our approach to place-based tilts. Note that because these approaches require a high degree of customization, they are available only for accounts greater than \$5 million.

Strategy offering subject to change.

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