

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 Apero 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 Apero 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 Apero portfolio and are being shown for illustrative purposes only. It should not be assumed that clients who actually invest in an Apero Racial Justice portfolio will have the same results reflected above. The hypothetical portfolio consists of securities that were selected by Apero'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. Apero 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 Apero 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 Apero 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 Apero Racial Justice Strategy were considered in the largest overweights and underweights example above.

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The S&P 500® Index is an equity benchmark for US stock performance. It is a capitalization-weighted index covering 500 large US companies chosen by Standard & Poor's for market size, liquidity, and industry group representation.

The Russell 3000® Index is an equity benchmark for US stock performance. It is a capitalization-weighted index covering the largest 3,000 publicly traded US stocks. The index represents approximately 98% of the total market capitalization of the US stock market.

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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