Investing in Social Justice

March 2021

Social Justice 2020

The social justice movement took center stage in 2020 following the deaths of Breonna Taylor, George Floyd, and others. These tragic events sparked a global focus on social justice and reignited conversations around racism, inequality, and reform.

Amidst this movement, we received requests related to integrating these social matters into the investment process. Investing is one small but important medium for promoting change as it enables investors to vote on material issues and align their values with their wallet. Last July, we developed a model with a Canvas partner that invests in companies committed to diversity, equity, and inclusion (DEI) in the workplace. This portfolio has provided the firm's advisors with a values-based portfolio offering strong fundamentals for clients and prospects that are passionate about social justice and equality.

Building a social justice model

ESG portfolios are typically built using three core levers, and we walk through the process below:

1) Exclusions
2) Tilts
3) Active Ownership

The Social Justice model incorporates all three: overweighting companies with strong equal rights, equal opportunity, and equal treatment values; pushing poor scoring companies to change through proxy voting; and completely divesting when misalignment in values is too large.

Exclusions: The Social Justice model excludes companies with ties to businesses that disproportionately impact communities of color: **private prisons, predatory lending, and the militarization of police (riot gear).** It also divests from companies involved in any severe diversity or labor related controversies.

159

Companies excluded from MSCI ACWI

Examples:

CoreCivic — Better the public good™	Honeywell
○ Largest private prison corporation. Profits from prisoners and immigrant detention centers.	○ Leading manufacturer of riot gear.

Tilts: After these exclusions, we “score” our investible universe on social justice metrics and overweight stronger-scoring companies while underweighting and/or removing lower-scoring ones. We use proprietary data, our ESG scoring convention, and our risk-optimization engine to score and construct ESG portfolios. Our social justice scoring framework incorporates the themes below:

- Board Diversity
- Discrimination Policies
- Racial and Ethnic Diversity Programs
- Freedom of Association Policies
- Supply Chain Monitoring for Racial and Ethnic Diversity
- Community Development Programs in Minority Communities
- Minority-Inclusive Health Care Access and/or Medical Research and Development
- Human Rights Issues like Conflict Minerals Programs and No Ties to Forced Labor
- Financial Inclusion Policies

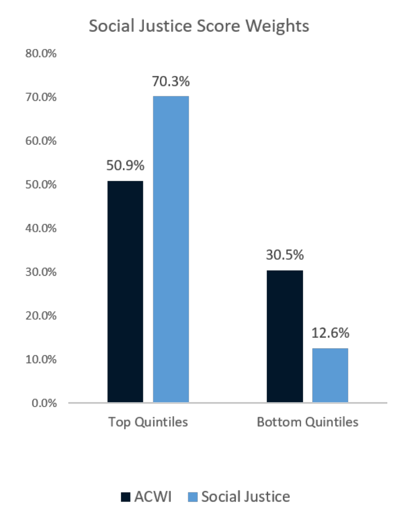
Tilt Towards

1. **Board Diversity:**

   - One of the most diverse board rooms in America, with over 50% minority and women representation.

2. **Financial Inclusion:**

   - Pledged $1 Billion to fight racial inequality through jobs, community outreach, Minority Depository Institutions, and investing in minority entrepreneurs & businesses.



Tilt Away

1. **Board Diversity:**

   - No diversity on their board. Lack of diversity remains a topic raised by investors but has not been addressed.

2. **Financial Inclusion:**

   - In recent years has paid fines for “abusive” lending and foreclosure practices that caused poor and minority borrowers to suffer disproportionately.

After completely removing the lowest scoring “social justice” companies, we increased the social justice score of the highest scoring quintile of companies by 19.4% and decreased the lowest scoring quintile of companies by 17.9% – all while maintaining the efficacy of the underlying investment model.[1] Advisors have the flexibility to increase/decrease the “tilt level” to control for tracking error.

[1] As of December 2020.

Active Ownership: Owning public equities provides the opportunity to vote on shareholder issues. Adding socially responsible proxy voting allows for an active ownership approach to further influence portfolio companies. Specific to the Social Justice model, we proxy vote in a way that promotes more diversity in board rooms and additional transparency on diversity initiatives and data points like pay gap metrics.

Returns & Risk

In addition to maximizing exposure to companies most aligned with social justice values, the advisor wanted return characteristics to closely match their firms high-conviction investment model. In other words, they wanted to significantly improve the pro-social justice exposure in the new model while maintaining the efficacy of the legacy investment model. We strive to be the platform where advisors can offer custom, values-based portfolios with unrivaled specificity – in this case, controlling for tracking error to marry risk-adjusted return and values-based goals.

Encourage your clients to make it their own

Just as there is no single way to *promote* social justice, there is no single definition of social justice *investing*. We believe values-based investing is never one-size-fits-all and is better accomplished through a separately managed account platform like Canvas. For advisors interested in DEI, within Canvas you can access this model, build a variation of it, or create something entirely new. Beyond DEI, our mission is to precisely match unique values and investment objectives.

If you are an advisor and have an ESG model or mandate in mind, we would love to talk: esg@osam.com.

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- Composite Performance Summary

For the full composite performance summary of this strategy. please follow this link: http://www.osam.com

3/11/21

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The risk-free rate used in the calculation of Sortino, Sharpe, and Treynor ratios is 5%, consistently applied across time.

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