FISHER INVESTMENTS™
INSTITUTIONAL GROUP

Queens University
ESG Questionnaire
Attachments

Fisher Investments

ESG Policy Statement

Fisher Investments®

Institutional Group

Introduction

Fisher Investments (FI)[1] considers environmental, social and governance (ESG) factors throughout the investment and portfolio construction process. Additionally, FI regularly screens and tailors the investment approach for separately managed accounts depending on the particular guidelines mandated by the client. The overall responsibility of implementation and fulfillment of the ESG policy rests with FI's Investment Policy Committee (FI's IPC).

ESG Philosophy

We believe ESG investors are best served by an investment process that considers both top-down and bottom-up factors. Integrating ESG analysis at the country, sector and security levels consistent with clients' investment goals and ESG policies maximizes the likelihood of achieving desired performance and improving environmental and social conditions worldwide.

ESG History

FI has been managing accounts with various thresholds of environmental and social mandates for over two decades. Over that time, the firm has been able to satisfy our clients' environmentally and socially responsible mandates without compromising its broader market outlook and themes. As of June 30, 2019, FI and its subsidiaries managed 60 accounts valued at over $19 billion USD[2] with environmental, religious and/or socially-responsible investment (SRI) restrictions. FI has been a Principles for Responsible Investment (PRI) signatory since 2014, and has provided a response to the UK Financial Reporting Council Stewardship Code. Further, Fisher Investments Japan, a wholly-owned subsidiary of FI, is a signatory of the Japanese Stewardship Code.

Fisher Investments evaluates and integrates ESG factors at multiple stages throughout the investment process.

[1] Fisher Investments (FI) is an investment adviser registered with the Securities and Exchange Commission. As of June 30, 2019, FI and its subsidiaries managed over $113 billion. FI and its subsidiaries consist of four business units – Fisher Investments Institutional Group, Fisher Investments US Private Client Group, Fisher Investments Private Client Group International, and Fisher Investments 401(k) Solutions Group. The Investment Policy Committee (IPC) is responsible for all investment decisions for the firm's strategies.

[2] All assets as of June 30, 2019 are preliminary. Preliminary assets are subject to final reconciliation of accounts.

ESG Issues are considered when developing country, sector and thematic preferences:

- Government influence on public companies
- Environmental legislation
- Environmental issues
- Market reforms impacting private property
- Labor and human rights

Top-Down Investment Process

ESG factors are among the many drivers considered by FI's Capital Markets Analysts and FI's IPC when developing country, sector and thematic preferences. Governmental influence on public companies, environmental regulation, social policy, market reforms impacting private property, labor, and human rights are among ESG factors considered for all FI clients when determining country and sector/industry allocations and shaping an initial prospect list of portfolio positions.

FI's IPC, with the assistance of FI's Securities and Capital Markets Analysts determines the materiality of the ESG considerations as they pertain to countries, industries or individual securities. These ESG factors are incorporated into the sector and country weight preferences as well as individual security selection. FI's investment strategy and positioning reflects the firm's outlook over the next 12-18 months. Determinations on the materiality of ESG factors by FI's IPC, as with market forecasting, are generally assessed over this same timeframe.

At a client's discretion, FI is able to refine prospective security lists further by applying the firm's or client-provided ESG screens to the list of prospective securities for separately managed accounts. Please reference the appendix for a sample of the firm's ESG screens. FI's screening process leverages MSCI ESG Research capabilities to identify and remove portfolio candidates involved in business activities deemed inconsistent with FI's, or a client-provided, screens.

The process involves reviewing and evaluating a range of ESG factors prior to purchasing a security:

- Shareholder concentration
- Corporate stewardship
- Environmental liabilities
- Labor and human rights controversies

Bottom-Up Investment Process

FI's Securities Analysts perform fundamental research on prospective investments to identify securities with strategic attributes consistent with the firm's top-down views and with competitive advantages relative to their defined peer group. The fundamental research process involves reviewing and evaluating a range of ESG factors with FI's IPC prior to purchasing a security, seeking to identify securities benefitting from ESG trends and avoid those with underappreciated risks. These factors include, but are not limited to, shareholder concentration, corporate stewardship, environmental opportunities & liabilities, and human or labor rights controversies. FI would choose not to invest in companies when security level issues:

- violate a client mandated ESG policy or
- present an inordinate risk to a company's operational or financial performance, or
- appear to present undue headline risk to share price performance

A material contribution of FI's relative performance is derived from sector, country, style and thematic decisions. As such, FI does not expect ESG restrictions to materially impact expected risk or return characteristics of the strategies. FI believes its ESG- related research capabilities can help enhance portfolio relative performance—particularly in instances where exposure to countries, industries, and securities with material negative ESG risks are reduced.

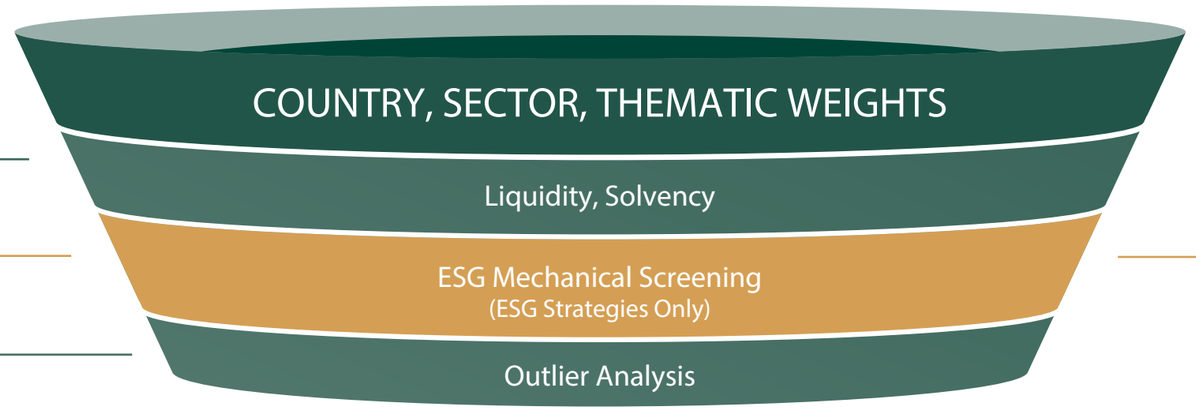
Prospect List Definition

Which categories and characteristics are apealling?

Which companies have liquidity or insolvency risk?

Are any companies disqualify based on clients ESG guidelines?

Are any companies incosistent with the category or peer group?



PROSPECT LIST

Security Selection

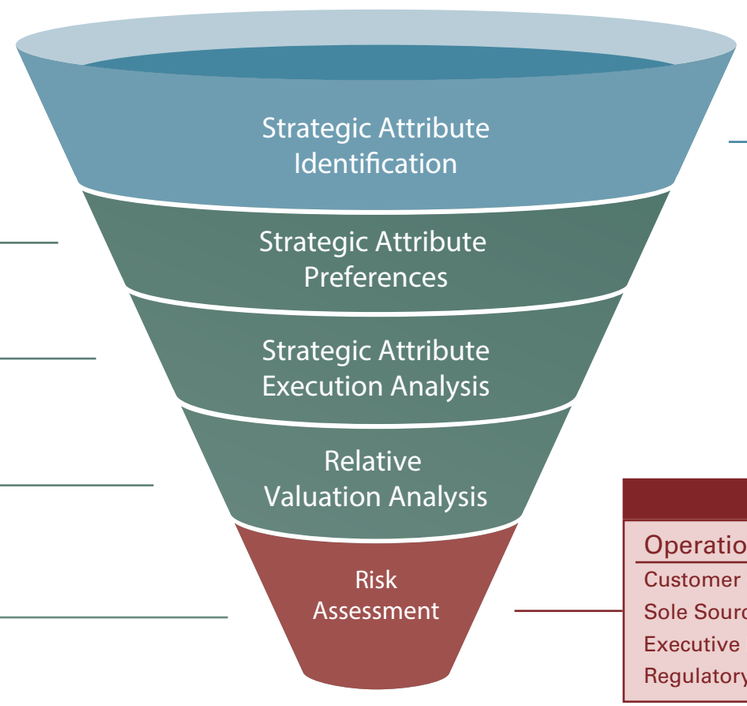
What are the company's competitive advantages?

Which strategic advantages best leverage our top-down views?

How is the company taking advantage of its strategic attribute?

Has the market fully discounted the company's advantages in its share price?

What are the material risks to the security?



SECURITY

ESG Quantitative Screen Examples

Business Activities	Defense and Weapon	Global Sanctions	Global Norms and Conventions
Adult Entertainment	Biological/Chemical	Burma	UN Global Compact
Alcohol	Cluster Bomb	OFAC	ILO Core Conventions
Gambling	Land Mines		
Tobacco	Conventional Weapons		
	Nuclear Weapons		

Strategic Attribute Examples

Brand Names	Strategic Relationships	Restructuring Plan
Market Share	Management	Innovator
Cost of Production	Turnaround Story	Strong Product Pipeline
Proprietary Technology	Barriers to Entry	Niche Market
Balance Sheet Strength	Consolidator	Regional Advantage

Red Flag Examples

Operational	ESG	Market and Security
Customer Concentration	Environmental Liability	Equity Ownership Concentration
Sole Source Supplier	Labor Relations	Pending Corporate Actions
Executive Departures	Corporate Stewardship	Accounting Irregularites
Regulatory and Legal Risks		Market Access

Monitoring & Elevations

ESG factors of portfolio holdings are continuously monitored and issues are elevated to FI's IPC when appropriate.

Capital Markets Research Analysts monitor how ESG factors may affect high-level portfolio themes. FI monitors key social policies driving wealth creation and economic growth, including, but not limited to, infrastructure investment, tax policy, free trade, property, human, and labor rights, and government reform. Political factors affecting these social policies are integral to the top-down analysis, allowing us to be cognizant of the regulatory risk surrounding the ESG environment. Additionally, research analysts monitor thematic opportunities such as advancing energy efficiency (e.g., within Industrials and Technology companies) and thematic risks such as those related to nuclear power, resource extraction (e.g., labor strikes and resource nationalization) and litigation tied to environmental impact.

Securities Analysts monitor existing holdings as part of the ongoing research process and elevate meaningful deterioration or improvements of various ESG factors at the company level. Each Capital Markets and Securities Analyst has access to a suite of tools from MSCI ESG Research including MSCI ESG Ratings and Controversies. These specialized tools assist in identifying opportunities, risks and controversies at the company level. Additionally, analysts utilize various resources from MSCI ESG Research, Bloomberg, and FactSet to monitor holdings violating a client's restrictions after purchase of the position, such as revenue generation in specific industries (gambling, weapons, alcohol, tobacco, etc.).

As a US entity, FI complies with US regulations, including the Office of Foreign Asset Control (OFAC) sanctions. FI's Client Guidelines and Assurance (CGA) Team is responsible for both US and international sanctions monitoring. The CGA Team subscribes to various regulatory body alerts to help identify sanctioned entities. Additionally, FI retains outside legal counsel and employs third-party vendors such as MSCI to notify the firm of any changes or updates to sanctions. Sanctioned companies and countries are added to restricted lists in FI order management system, Eze OMS.

CGA is also responsible for monitoring any holdings violating a client's restrictions before and after purchase of the position, such as revenue generation in specific industries (gambling, weapons, alcohol, tobacco, etc.) utilizing various resources from MSCI ESG Research, and FactSet. Any violations or potential violations are elevated to the IPC for review.

Engagement

FI engages with companies as part of its fundamental analysis and to clarify or express concerns over potential ESG issues at the firm or industry level. FI also engages with company management on proxy voting issues, particularly when Institutional Shareholder Services, Inc. (ISS) is in disagreement with company management. FI holds meetings with management as necessary to discuss any pertinent issues we feel are critical to analyzing the firm or better understanding peers or relevant industry factors. Information uncovered during engagement as part of the firm's fundamental analysis can impact investment decisions and security determinations.

Additionally, FI's Engagement Policy is available upon request.

Low Carbon/Impact Portfolios

In addition to integrating ESG factors into our regular investment process, FI also offers low carbon and impact portfolios to investors. Within low carbon portfolios, FI not only targets carbon related risks more directly by restricting various coal-fired utilities and mining companies involved in thermal coal extraction, but also explicitly targets a carbon footprint reduction relative to a benchmark.

Proxy Voting

FI utilizes Institutional Shareholder Services Inc. (ISS) as its third-party proxy service provider. ISS is one of the largest providers of corporate governance solutions with services including objective governance research and analysis, proxy voting, and distribution solutions.

Proprietary and third-party information, such as ISS, are used to help ensure adherence to a client's standards. When FI votes proxies for clients, FI evaluates issues and votes in accordance with what FI believes will most likely help maximize shareholder value, unless otherwise expressly directed by clients. In most cases, FI is pleased to accommodate client voting guidelines on particular issues. For example, FI has the ability to vote proxies in accordance with ISS's Socially Responsible Investment (SRI) Policy generally supporting shareholder proposals on social, environmental, and labor issues. There may be issues that could cause us to deviate from our standard voting policies. In the case of unique or novel proposals, issues are analyzed on a case by case basis. FI frequently engages with company management on proxy voting issues, particularly where ISS is in disagreement with management. In such cases, the IPC determines the appropriate course of action.

FI's Proxy Voting Committee oversees the firm's proxy voting and serves as the control point for decisions relating to proxy voting. The members of the Proxy Voting Committee include senior leadership from our Research, Portfolio Management, and Investment Operations groups. The Chief Compliance Officer is a non-voting member.

ESG Reporting

We are utilizing several ESG data providers such as MSCI ESG Research, Bloomberg, and FactSet that, when combined with our firm's resources, allow for extensive ESG reporting on client portfolios. Reports available to clients may include ESG score reporting versus the benchmark, carbon footprint reporting, engagement reporting, as well as ESG attribution analyses.

Sources of Information

Throughout the research process, FI uses various databases and information vendors to aid and augment our proprietary internal ESG Research, including MSCI ESG Research (including MSCI Business Involvement Screening, MSCI Norms & Controversies, and MSCI Carbon Metrics), Morningstar Sustainalytics Fund Globe Ratings, Risk Metrics, Bloomberg, and FactSet. In combination with such tools and readily available public information from ongoing analysis of holding and portfolio candidates, FI is able to accommodate socially responsible and ESG client-mandated guidelines in separate accounts while adhering to our overall investment strategy.

Ongoing Learning

FI has designated one IPC member to oversee the continuing education of Research Analysts as it relates to ESG investing. In addition, FI has three appointed subject matter experts on FI's Capital Markets Research and Securities Research team. Together, the IPC member and the ESG specialists play a central role in the application of ESG considerations in the following areas: investment research, guideline implementation and portfolio compliance.

As part of the research process, the specialists are responsible for current and developing ESG trends and briefing FI's broader IPC when appropriate. The specialists work with data providers to help ensure quality and comprehensive data is available for decision-making and the consistent application of ongoing ESG analysis for individual securities. These specialists are responsible for training analysts and Institutional Relationship Managers on ESG issues. We plan to continue holding regular ESG training sessions for our Analysts, Relationship Managers and Associates.

The ESG Analysts also serve as the liaison between our Research teams and the Institutional Relationship Managers. In addition, they help create ESG specific deliverables for our clients and prospective clients and provide clarity on how ESG is applied in our investment process.

FI's formal Responsible Investments Committee develops and reviews our ESG policies and keeps apace of ESG industry developments. The Responsible Investments Committee meets regularly and consists of leadership from our Portfolio Management Group as well as our Institutional Client Services and Institutional Sales Teams, with the intention of making FI a market leader in ESG investing through ESG implementation.

We strongly encourage other asset management industry participants interested in responsible investing to become a PRI signatory (https://www.unpri.org/about/becoming-a-signatory).

FI has an in-house team that handles client reporting requirements. FI can generally provide reporting on ESG aspects as part of the firm's standard reporting, and is pleased to customize reporting as requested. FI's latest Responsible Investment Transparency Report is publicly available on the PRI website (linked here).

Appendix I - Sample of ESG Restrictions/ Guidelines

FI is able to place restrictions in the following categories through negative screens for separately managed accounts using MSCI ESG Research and other data sources:

SAMPLING OF OPTIONAL MECHANICAL SCREENS

Defense and Weapons

- Biological/Chemical***
- Conventional*
- Depleted Uranium Weapons Production
- Nuclear***
- Cluster munitions (any ties)
- Civilian Firearms*
- Landmines (any ties)

Business Activities

- Adult Entertainment*
- Alcohol/Gambling/ Tobacco*
- Child Labor Controversy
- Genetic Engineering*
- Animal Welfare
- Thermal Coal Extraction & Power Generation**

Global Sanctions

- US Office of Foreign Asset Control (OFAC)
- EU Sanctions against Russia
- Canada's Special Economic Measures Act (SEMA)
- Australian Department of Foreign Affairs and Trade (DFAT)

Global Norms and Conventions

- The Norwegian Global Pension Fund restriction list
- UN Global compact
- ILO core Conventions
- Universal Declaration of Human Rights

** Maximum 5% of revenue.*
*** Companies that derive more than 30% of revenue or power generation.*
**** Maximum 0% of revenue.*

CARBON FOOTPRINT

Investing one million dollars (CAD) in the Queen's University US Small Cap Value account reduces a portfolio's annual carbon impact relative to a portfolio tracking the Russell 2000 Value index.

This amount invested in the Russell 2000 Value index is responsible for annual emissions of 276 metric tons of carbon dioxide equivalent (tCO2e), compared to 134 tCO2e for the Queen's University US Small Cap Value account.

This would represent a **51% reduction in annual carbon emissions** and is equivalent to the following examples.

EMISSIONS REDUCED

KILOMETERS DRIVEN IN CARS

560,301

LITERS OF GASOLINE CONSUMED

60,505

BARRELS OF OIL CONSUMED

330

KILOGRAMS OF COAL BURNED

70,494

CARBON SEQUESTERED BY

TREE SEEDLINGS GROWN FOR 10 YEARS

3,642

67.6

HECTARES OF FORESTS IN ONE YEAR

Source: MSCI ESG Research, Coverage by Portfolio Weight: Queen's University US Small Cap Value account- 99.3%, Russell 2000 Value - 90.3%. Carbon reduction estimates rounded to whole number and based on U.S. EPA (https://www.epa.gov/energy/greenhouse-gas-equivalencies-calculator). Based in CAD. As of 6/30/2020

FISHER INVESTMENTS INVESTOR RESPONSIBILITY & ENGAGEMENT TEAM

Fisher Investments regularly engages corporations on relevant environmental, social and governance issues, often seeking additional disclosure for investors or requesting that companies take steps to strengthen their ESG performance. Engagements are conducted by our Investor Responsibility & Engagement team and our Research Analysts.

OUR INVESTOR RESPONSIBILITY & ENGAGEMENT TEAM

Anita Green
VP, Investor Responsibility & Engagement

Anita leads strategic development and implementation of the Fisher Investments ESG corporate engagement program. Anita has 30 years experience in the industry and is active in Responsible Investment trade associations and served on the Interfaith Center on Corporate Responsibility Board of Directors.

Sagar Rijal
Investor Responsibility & Engagement Analyst

Sagar is an expert in corporate governance, global climate politics and ESG analysis. Prior to joining the firm, he spent 4 years at Institutional Shareholder Services, where his roles included proxy voting researcher and corporate governance advisor and engagement coordinator.

HOW WE SOURCE OUR ENGAGEMENT OPPORTUNITIES

- Client ESG Priorities
- Proprietary Top-Down Assessment of Material ESG issues
- Ongoing Portfolio Monitoring
- Proxy Voting Activities
- Collaborative Engagement Initiatives

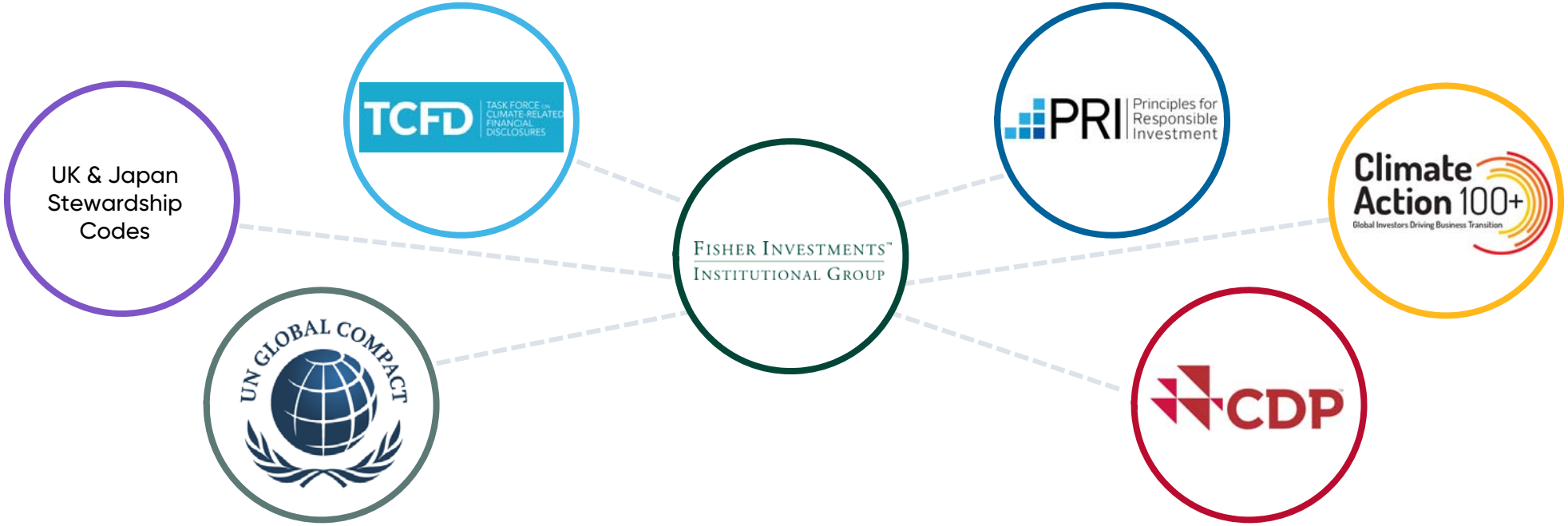
EACH ENGAGEMENT IS...

...researched by our team **"What are the relevant risks and opportunities?"**
...assigned an objective **"What are we asking the company to do?"**
...supported by a business case **"Why is it important?"**
...monitored over time **"What milestones are achieved?"**

FISHER INVESTMENTS INVESTOR RESPONSIBILITY & ENGAGEMENT TEAM

COLLABORATING WITH OTHERS

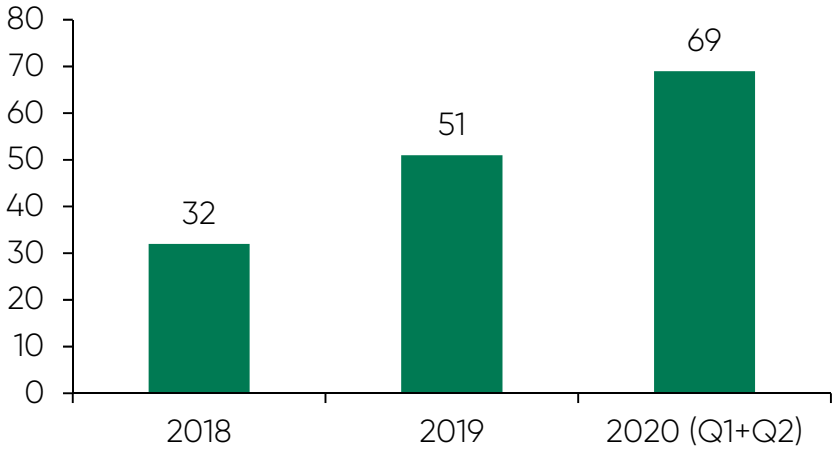
When investors work together, it can be effective in driving change. Fisher Investments participates in the following responsible investment networks and initiatives:



ENGAGEMENTS BY CATEGORY (12 MONTHS: Q3 2019 – Q2 2020)

Category	% of Engagements	Engagement Priorities
Environmental	66%	Environmental (Climate Change, Water, Forest) Disclosures; GHG Emissions; Pollution & Waste
Social	15%	Employee Health and Safety; Human Capital
Governance	19%	Board Composition; Executive Compensation; Proxy Voting

TOTAL ESG ENGAGEMENTS BY YEAR



Source: Fisher Investments Research. As of June 2020.

DISCLOSURES

Source: Fisher Investments Research, as of June 2020.

Data indicated above are based on engagement meetings for all of Fisher Investments Institutional clients. For Professional Client Use Only. Past performance is never a guarantee of future returns. Investments in securities involve the risk of loss. Any investment program will always involve the risk of loss. Global investing can involve additional risks, such as the risk of currency fluctuations.

As an asset management firm, Fisher Investments (FI) manages investments in shares of a wide range of companies on behalf of our clients. These shares entitle the holders to vote on various issues put forth by the company and its shareholders at the company's annual meeting or at a special meeting.

The report above demonstrates how FI engages with company management on ESG issues: environmental issues include but not limited to: climate change, toxic emissions & waste, vulnerability to legislation and impact on local communities; social issues include but not limited to: animal rights, human rights, labor relations, controversial countries and controversial weapons and governance issues include but not limited to: routine business, corporate governance, board independence, executive compensation, corporate stewardship and bribery & corruption.

FI engages according to the Fisher Investments Engagement Policy. Identifying engagement opportunities is a part of FI's fundamental analysis and to clarify or express concerns over potential ESG issues at the firm or industry level.

Engagement Examples

Fisher Investments (FI)[1] Engagements by Category (12 Months: Q3 2019 – Q2 2020)

Category	% of Engagements	Engagement Priorities
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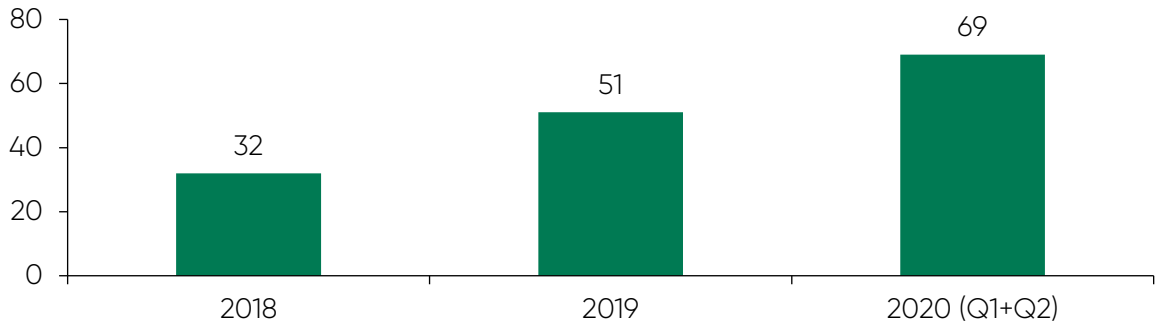
Total ESG Engagements by Year



Source: Fisher Investments Research. As of June 30, 2020.

Engagement Examples

Please find the following engagement examples.

SALESFORCE.COM INC

REGION:	NORTH AMERICA
SECTOR:	INFORMATION TECHNOLOGY
ISSUE:	SOCIAL
DATE:	Q2 2020

Objective

Discuss impact of the COVID-19 pandemic on the company's business.

Engagement Details

After a discussion of Salesforce's financials and guidance, FI discussed the impact of the pandemic by segment and geography, including broad IT spending patterns, the company's approach to mergers and acquisitions and impact of granting customers financial flexibility.

Outcome

No additional follow up is planned.

SCHLUMBERGER

REGION:	NORTH AMERICA
SECTOR:	ENERGY
ISSUE:	ENVIRONMENT
DATE:	Q2 2020

Objective

Learn about Schlumberger's sustainability programme and discuss alignment with the Paris Agreement.

Engagement Details

FI engaged Schlumberger to encourage alignment with the Paris Agreement. The company's new CEO is positioning the company to be part of the energy transition and Schlumberger is the first O&G Company to commit to setting an emissions goal that aligns with the Science Based Target Initiative (SBTi). In addition, as of 2020 the company has incorporated its emissions reduction targets into the incentive programme for 1,500 members of senior management.

However, we note that Schlumberger does not have a methane emissions reduction target, nor has it yet published the results of its TCFD risk assessments.

Outcome

We will follow up with the company regarding the establishment of a methane emissions reduction target, publishing results of the TCFD analysis, and its progress in setting a SBTi-aligned greenhouse gas emissions target.

EQUINOR ASA

REGION:	EUROPE
SECTOR:	ENERGY
ISSUE:	ENVIRONMENT
DATE:	Q1 2020

Objective

Discuss company strategy, including supply-demand dynamics and diversification into offshore wind.

Engagement Details

Equinor is focused on creating a portfolio of low-cost assets that can generate free cash even in an environment of low commodity prices. In response to industry headwinds, the company is focusing its gas production where pipelines already exist rather than building additional LNG infrastructure. In addition, the company prefers low-cost, conventional oil assets rather than unconventional shale oil projects in North America. Equinor is diversifying into offshore wind projects as the company believes it has a competitive advantage in the engineering and construction of complex projects. Offshore wind may become as much as 15% of capex for Equinor in the coming years due to this expansion. In February the company announced plans to be operationally carbon neutral by 2030 and cut its carbon intensity in half by 2050 (the latter target includes Scope 3 or "indirect" emissions).

Outcome

No additional engagements are planned.

THE HOME DEPOT

REGION:	NORTH AMERICA
SECTOR:	CONSUMER DISCRETIONARY
ISSUE:	SUSTAINABILITY DISCLOSURE
DATE:	Q4 2019

Objective

Receive an update on company's sustainability initiatives.

Engagement Details

Fisher Investments (FI) spoke with Home Depot about improving disclosure of ESG policies and performance. Home Depot has historically been slower than its competitors to adopt sustainable practices. It recently announced it is establishing an ESG Communications Team to improve its reporting and actively engage with shareholders, employees, and community stakeholders for input on these efforts.

One of Home Depot's strengths is its best-in-class employee benefits, which are extended to part-time employees. Management reports a corresponding positive effect on retention—noting that 90% of its leadership roles are held by men and women who began in hourly positions. However, labor relations risks remain; the company has over 400,000 employees and has weathered controversies surrounding unpaid wages and wrongful termination. In addition, employees are not subject to collective bargaining agreements, which can increase the potential for future labor-related business disruptions.

Home Depot has established water and energy reduction targets, and includes the impact of customer use in its metrics. However, its progress is presented in an ad-hoc manner that makes it difficult to identify year-over-year trends. In many other places, the company uses aspirational statements to describe its expectations. While the company is considering a satisfactory range of issues, the lack of targets or monitoring for compliance leaves investors unable to assess their effectiveness in driving efficiencies or reducing supply chain risk.

Outcome

FI supports the establishment of dedicated team to respond to investor demand for greater transparency into sustainability initiatives. We intend to re-engage the company to encourage standardised ESG reporting.

ORACLE CORPORATION

REGION:	NORTH AMERICA
SECTOR:	INFORMATION TECHNOLOGY
ISSUE:	CORPORATE GOVERNANCE
DATE:	Q4 2019

Objective

Understand company priorities on the proxy vote.

Engagement Details

Oracle's investor relations team reached out to Fisher to discuss proxy voting items at the upcoming shareholders meeting. In particular, the company wanted to focus on the proposed executive compensation package, in which management's recommendation differed from ISS. We reviewed the structure of the compensation package and weighed management's arguments that the package would help improve leadership continuity (the company is seeking stability after the death of one executive and the departure of another). We also examined ISS' concerns about poor responsiveness from the company on prior say-on-pay proposals.

Outcome

FI voted in support of management.

ALIGN TECHNOLOGY, INC. AND ANTOFAGASTA COLLABORATIVE ENGAGEMENT WITH CDP

REGION:	MULTIPLE
SECTOR:	MULTIPLE
ISSUE:	SUSTAINABILITY DISCLOSURE

Objective

Request the companies report to the CDP using the organisation's Climate, Water and/or Forest disclosure questionnaires.

Engagement Details

FI is participating in an environmentally-focused engagement initiative with approximately 60 companies, including Align Technology and Antofagasta. FI is a signatory to the CDP, a global disclosure network that allows companies, investors, cities and regions to manage their environmental impacts. Each year, CDP signatories request companies to disclose–via the CDP questionnaire–their policies and performance on climate change, water security and deforestation. In 2020 FI intends to lead collaborative engagement with approximately 20 companies and support engagement with nearly 40 more.

Outcome

This engagement initiative launched in May 2020 and is ongoing through August 2020.

Disclosures

[1] Fisher Asset Management, LLC, doing business as Fisher Investments (FI) is an investment adviser registered with the Securities and Exchange Commission. As of June 30, 2020, FI and its subsidiaries managed over $167 billion CAD. CAD asset values were calculated by using the USD-CAD exchange rate as of the dates indicated. Source: FactSet. All assets, as of June 30, 2020, in this document are preliminary and subject to final reconciliation of accounts. FI and its subsidiaries consist of four business units – Fisher Investments Institutional Group, Fisher Investments US Private Client Group, Fisher Investments Private Client Group International, and Fisher Investments 401(k) Solutions Group. The Investment Policy Committee (IPC) is responsible for all investment decisions for the firm's strategies.Data indicated above are based on engagement meetings for all of Fisher Investments Institutional clients. For Professional Client Use Only. Past performance is never a guarantee of future returns. Investments in securities involve the risk of loss. Any investment program will always involve the risk of loss. Global investing can involve additional risks, such as the risk of currency fluctuations.

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Should you have any questions about any of the information provided above, please contact us at fisherinstitutional@fi.com.

ESG INSIGHTS

Fisher Investments™ Institutional Group

Fisher Investments Woodside, California Office.

TABLE OF CONTENTS

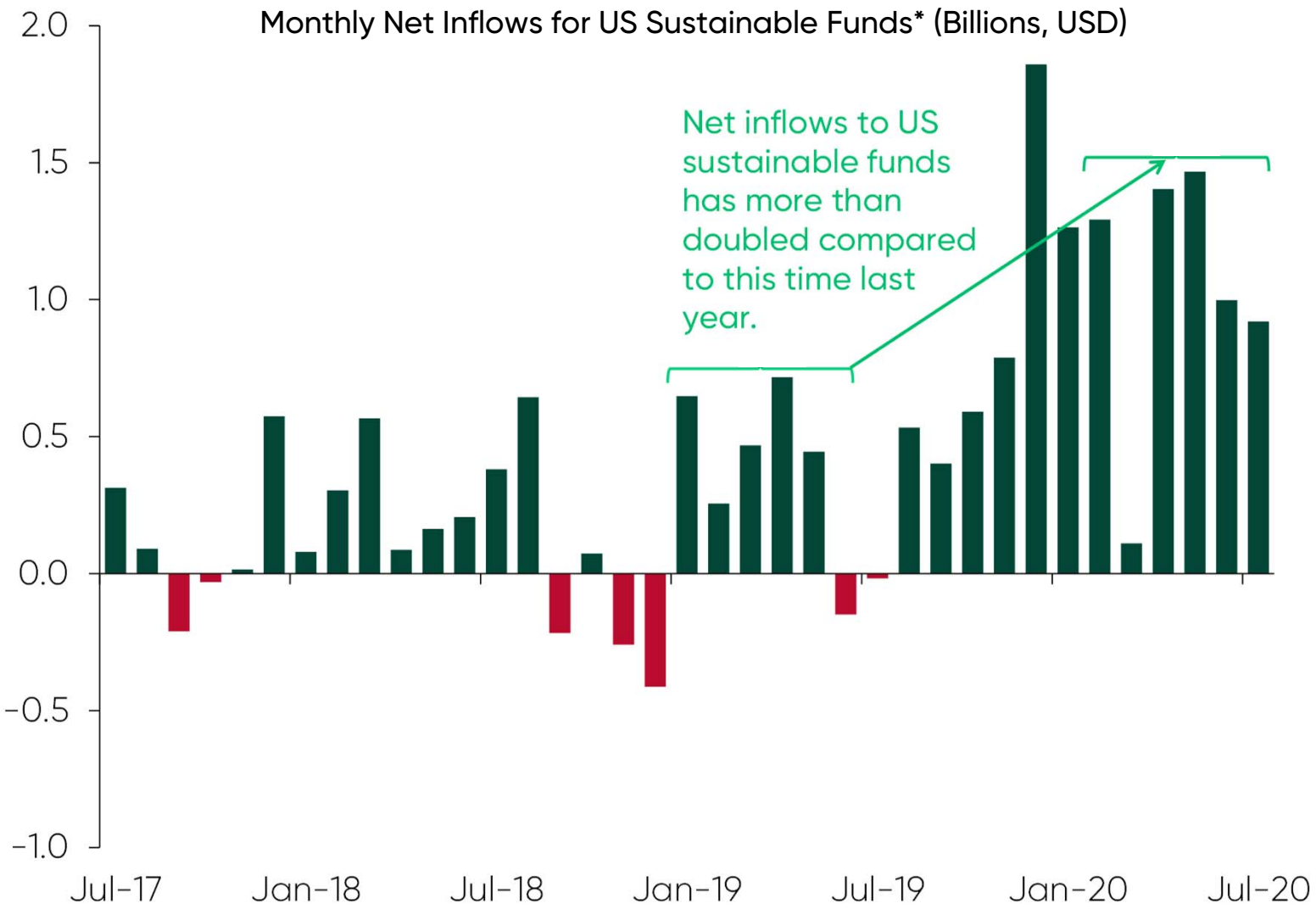
ESG IMPLICATIONS OF COVID-19

- Demand for ESG strategies remains strong despite the bear market and global pandemic.
- COVID-19 brings socially focused issues to the forefront.
- Fund flows for socially and environmentally focused funds see continued growth.
- Performance tied to ESG scores during the pandemic appears to be more a factor of industry, style and size trends.

As of 06/30/2020.

ESG DEMAND STRONG DESPITE BEAR MARKET

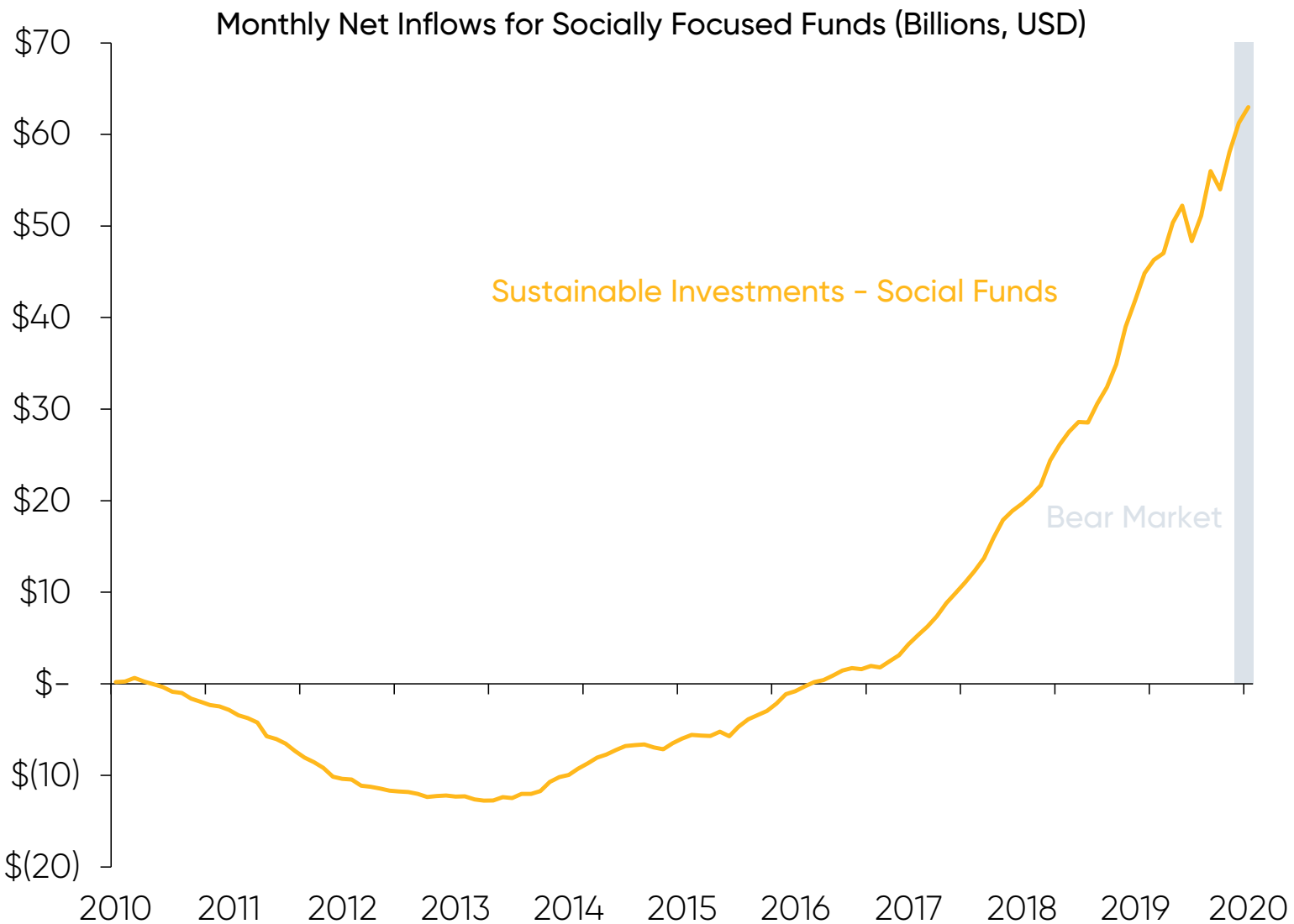
Compared to previous periods, US sustainable funds are enjoying record net inflows. YTD net inflows to US sustainable funds nearly doubled compared to the same period in 2019.



*Source: Morningstar Direct as of 07/31/2020. Shows net inflows aggregated from all fund share classes included in the following Morningstar Sustainable Investment criteria's, and available for sale in the United States. *Sustainable Investment Criteria's included: Community development, Environmental, ESG Incorporation, Gender & Diversity, General Environmental Sector, Low Carbon/Fossil Fuel Free, Other Impact Themes, Renewable Energy & Water-Focused. (330 funds total).*

SOCIALLY FOCUSED FUNDS LIKELY WILL SEE A BOOST IN DEMAND

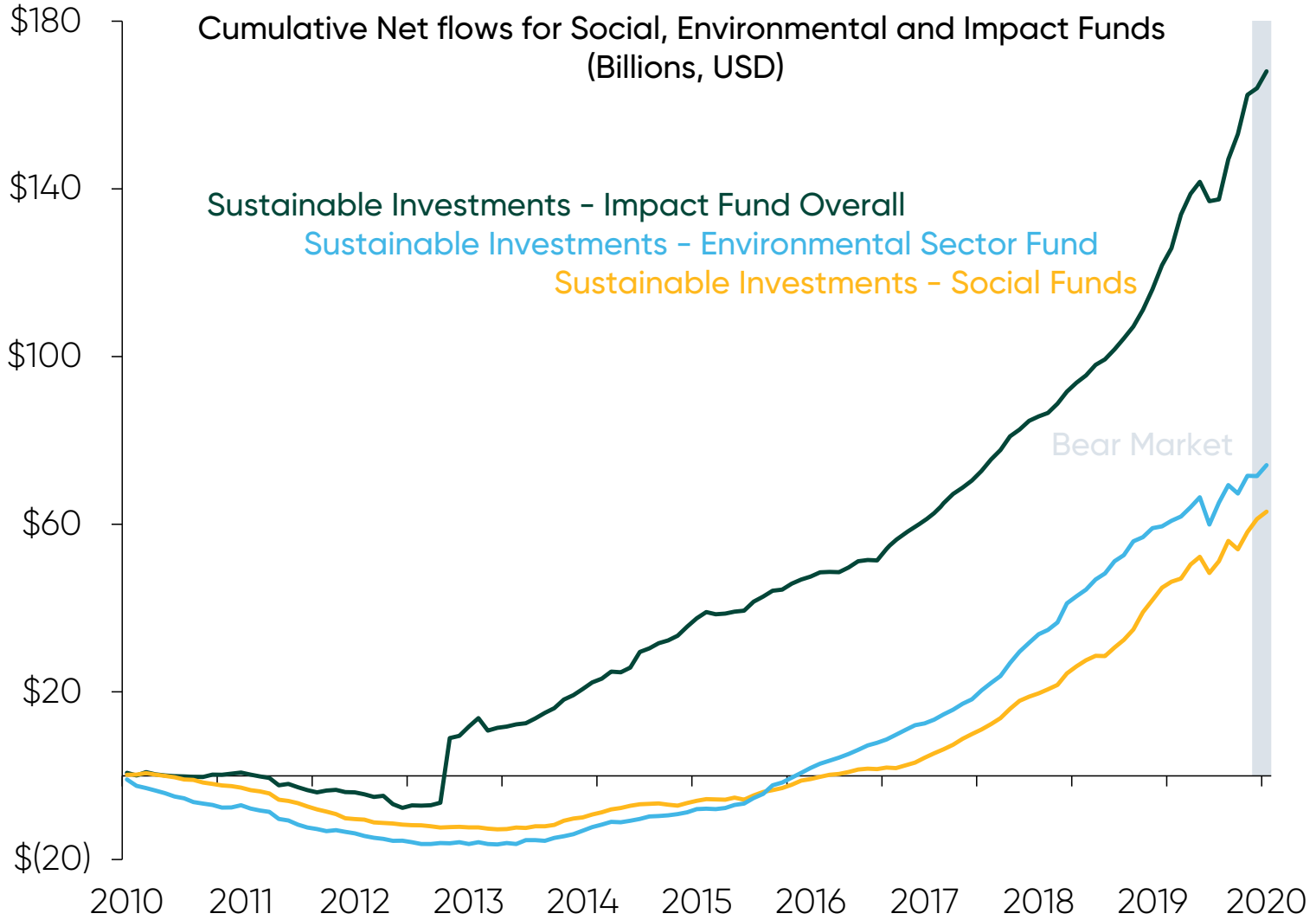
The public health crisis is bringing the social component of ESG to the forefront. Relative to this time last year Socially focused funds have grown 19% globally.



Source: Morningstar Direct, as of 05/22/2020. Shows cumulative net inflows for open-end and exchange traded funds in billions of USD, from 04/30/2010 to 04/30/2020. Social funds are based on the aggregate flows for the Community Development and Gender & Diversity Morningstar Sustainable Investment criteria's. Based on 2,373 active and passive products.

"E" AND "S" COME TOGETHER

Net flows into environmental, social and impact funds remain positive despite the current market environment. Moving forward we expect to see continued demand for both E and S focused funds. Impact Investing—which incorporates both E and S considerations-is one of the fastest growing types of ESG investing globally.

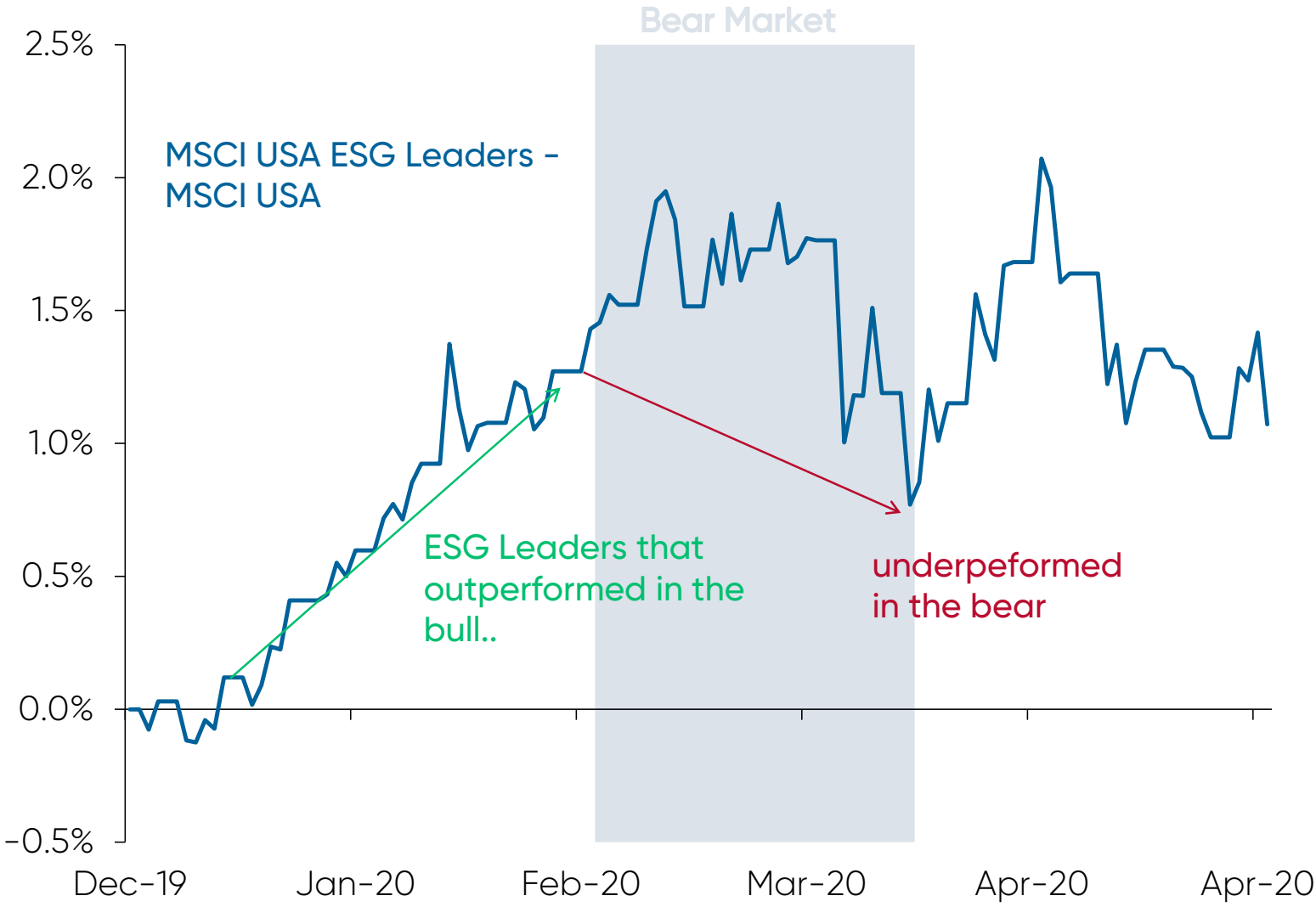


Source: Morningstar Direct, as of 05/22/2020. Shows cumulative net inflows for open-end and exchange traded funds in billions of USD, from 04/30/2010 to 04/30/2020. Based on the Morningstar sustainable investment criteria's as shown on chart. Social funds are based on the aggregate flows for the Community Development and Gender & Diversity Morningstar Sustainable Investment criteria's. Based on 2,373 active and passive products. Based on 11,704 active and passive products.

WHEN A PASSIVE ESG INDEX OUTPERFORMS INVESTORS SHOULD BE SURE TO ASK WHY

Much is made of passive ESG indexes outperforming YTD, however decomposing returns suggests outperformance may have little to do with ESG strategy performance.

Performance of High Scoring ESG Equities in the US has been Inconsistent

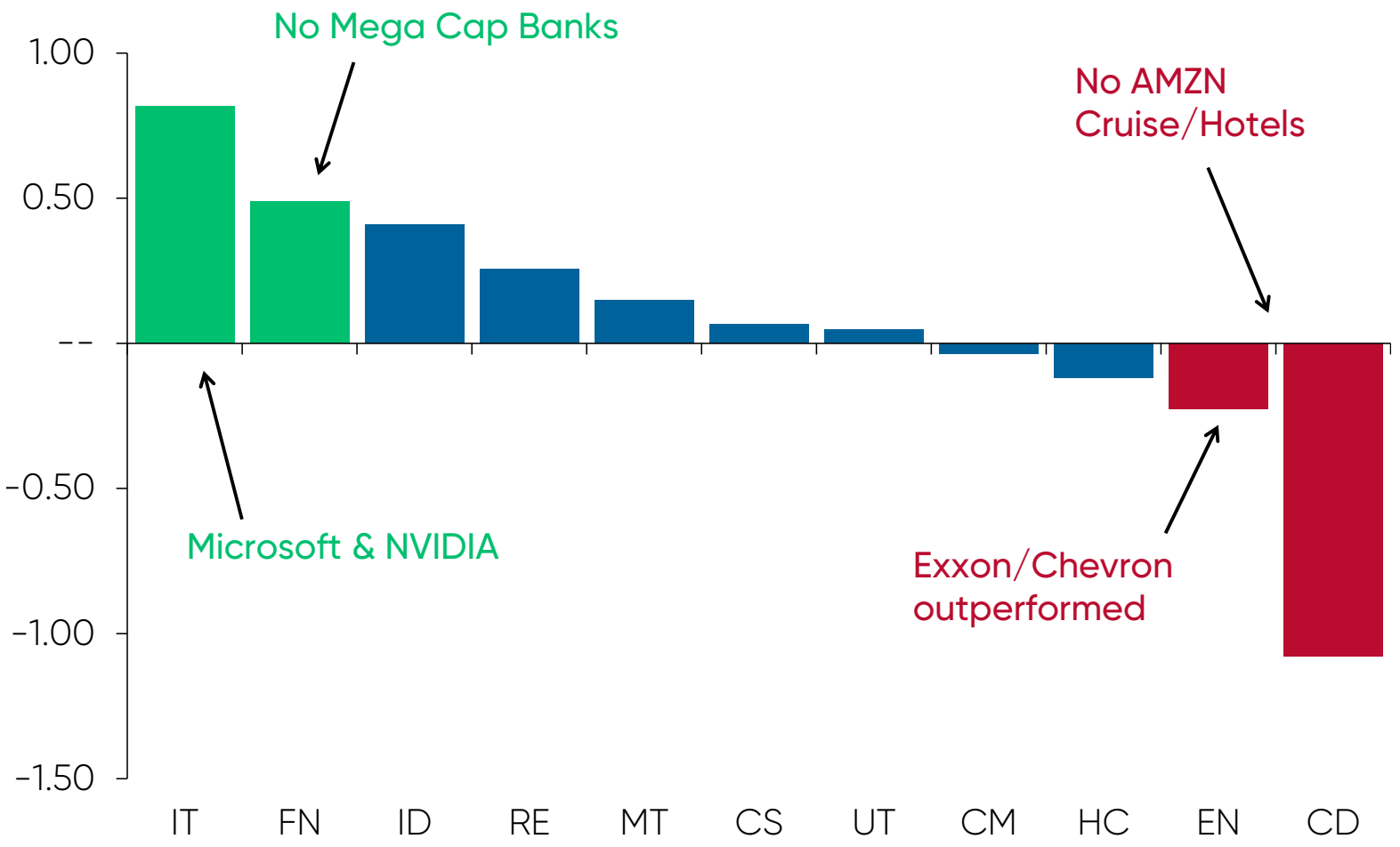


Source: Fisher Investments/FactSet: Price performance Xtrackers MSCI USA ESG Leaders Equity ETF vs MSCI USA Index 12/31/2019 to 04/30/2020.

PANDEMIC SPECIFIC FACTORS DROVE ESG INDEX RETURNS DURING BEAR

Security attribution suggests that YTD performance has more to do with the global pandemic than ESG scores. MSFT and NVDA had strong IT performance, driven by their ability to adapt to remote working conditions more easily than companies in other industries.

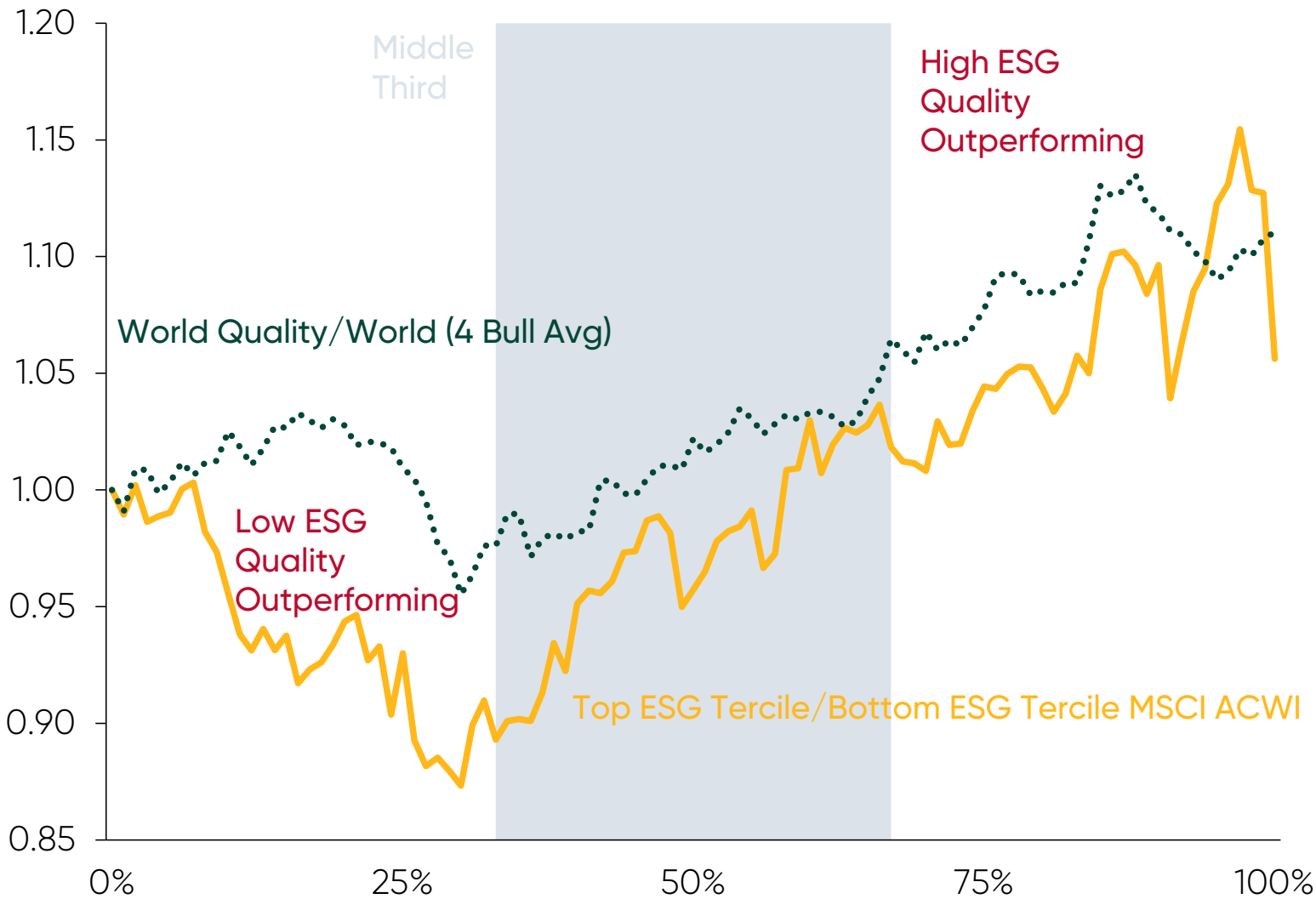
Performance of ESG Leaders Index



Source: Fisher Investments/FactSet: Total attribution effect (security + sector) of Xtrackers MSCI USA ESG Leaders Equity ETF vs MSCI USA Index 12/31/2019 to 04/30/2020.

ESG SCORE PERFORMANCE TIED TO QUALITY MARKET CYCLE

Returns of the top and bottom decile of ESG scores follows a similar pattern to quality: Low outperforms early in the cycle, while high outperforms later in the cycle.



Source: ClariFI and MSCI ESG Research; ESG scores are MSCI's industry-adjusted ESG scores; 07/08/2016 marks the end of the middle third; returns are cumulative from 03/09/2009 to 03/31/2020; FactSet MSCI World Quality vs MSCI World (last 4 bull market cycles).

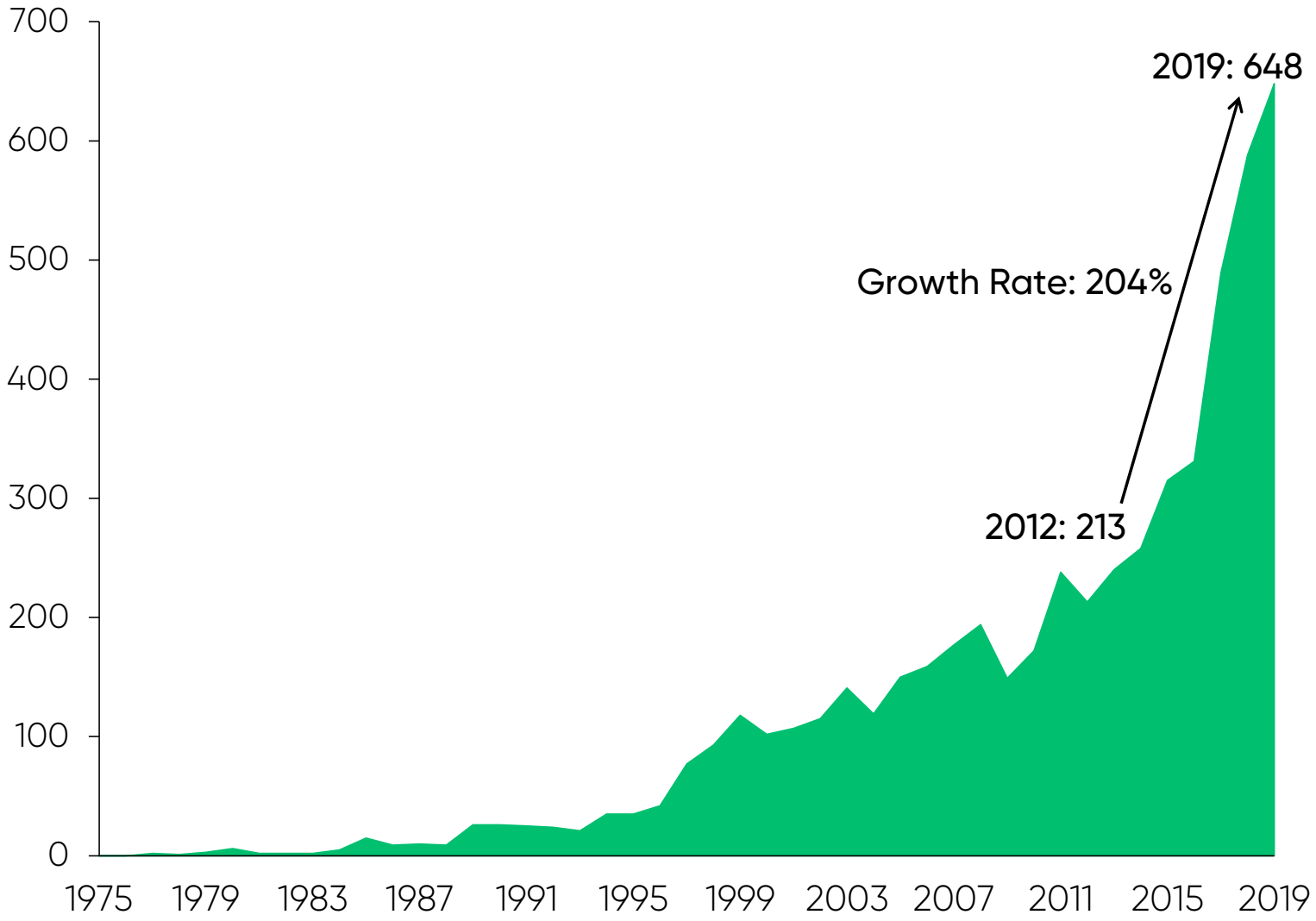
GLOBAL ESG TRENDS

- The market share of ESG strategies is growing globally across almost all major regions.
- By AUM, exclusions are the largest ESG strategy while Impact investing is one of the fastest growing.
- Regionally, Australia, New Zealand and Europe have the highest portion of AUM in ESG investments.
- Investors prefer actively managed ESG funds.
- The percentage of female board directors varies across countries with developed markets leading.

As of 06/30/2020.

EVOLUTION OF ESG DEMAND

Demand for ESG oriented products has grown dramatically over the last 7 years, illustrating the importance and value investors put behind considering ESG factors.

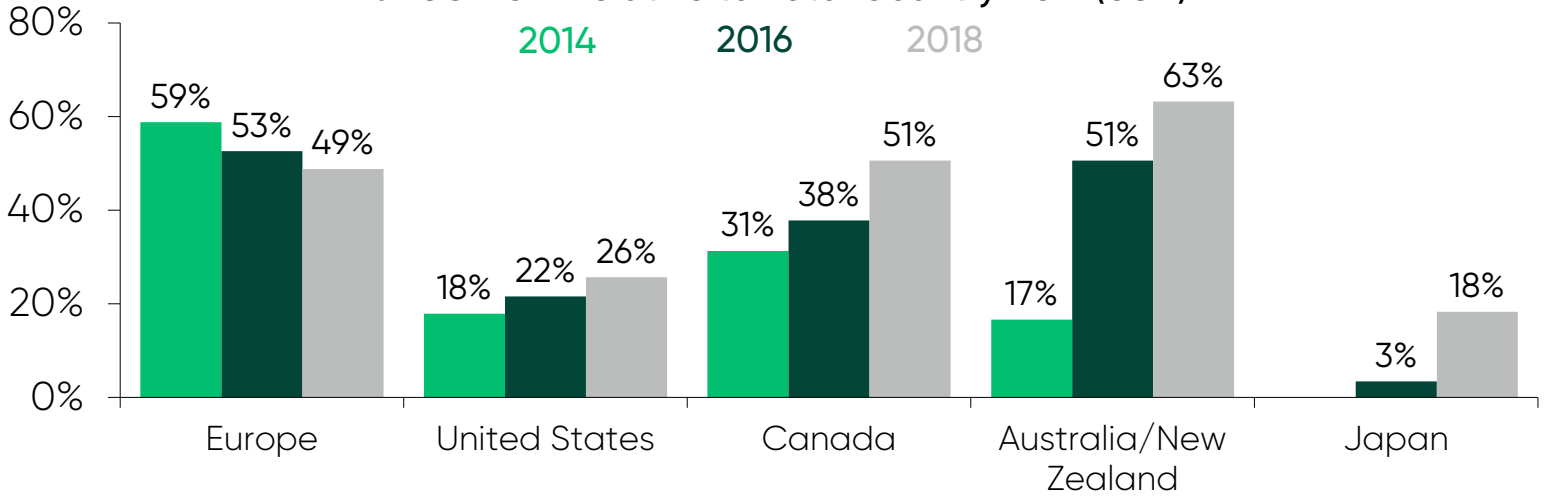


Source: MSCI ESG Research as of 12/31/2019.

GLOBAL ESG AUM & STRATEGY GROWTH

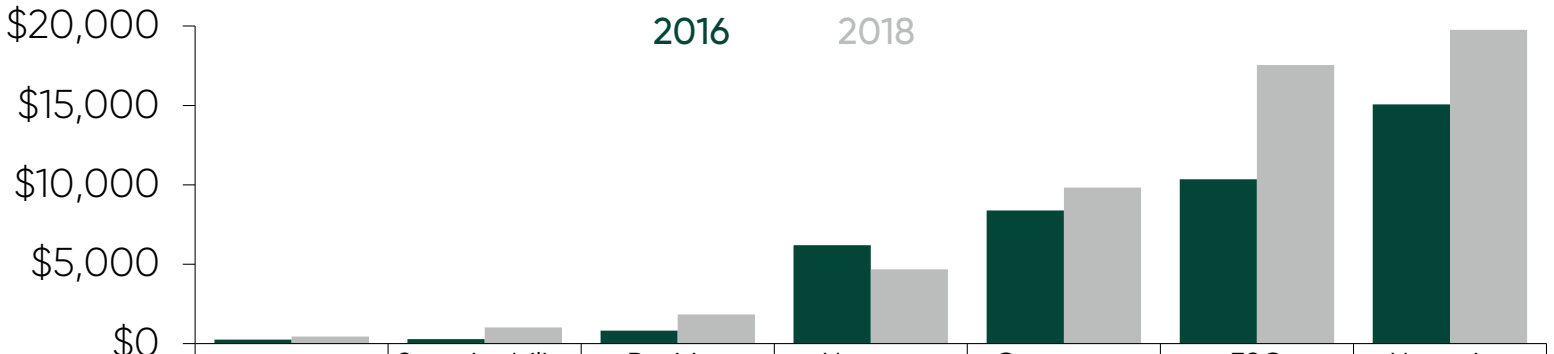
Globally, ESG AUM across the 5 major markets was $30.7 trillion at the start of 2018, a 34% increase in 2 years. In all the regions except Europe, ESG investing's market share increased. From 2016 to 2018, Japan was the fastest growing region.

% ESG AUM Relative to Total Country AUM (USD)



Negative screening has the highest ESG AUM globally, while sustainability themed was the fastest growing strategy, followed by positive screening and impact.

Global Growth of ESG by Strategies (Billions, USD)



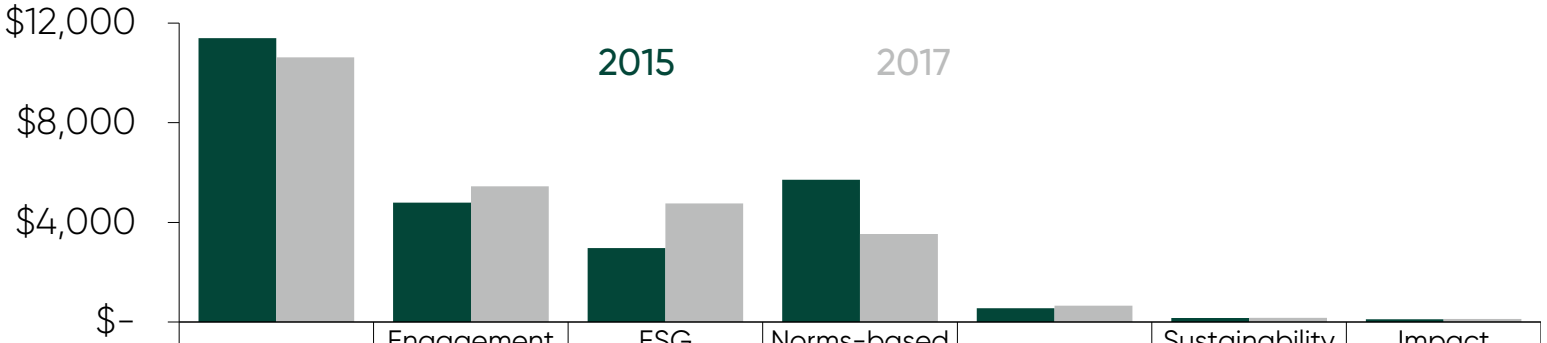
	Impact	Sustainability Themed	Positive Screening	Norms-based	Corporate Engagement	ESG Integration	Negative Screening
2016	$248.47	$276.16	$818.01	$6,195.40	$8,385.17	$10,353.2	$15,063.5
2018	$444.26	$1,017.66	$1,841.87	$4,679.44	$9,834.59	$17,543.8	$19,770.9

Source: Global Sustainable Investment Review 2018.

ESG IN EUROPE

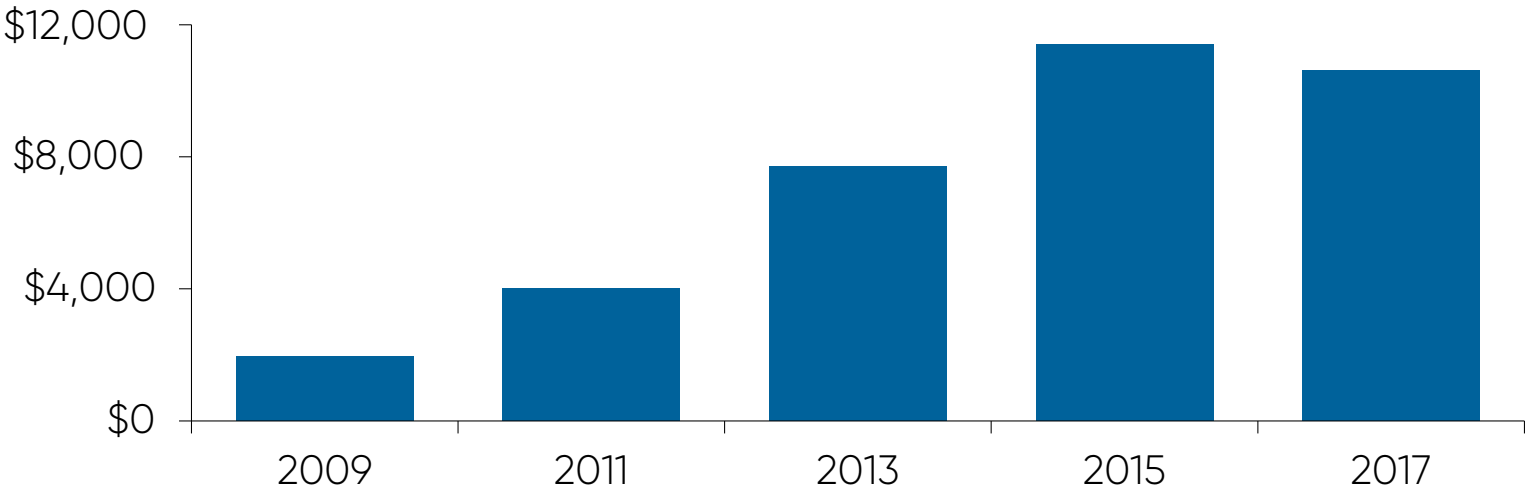
By AUM, Exclusions represent the largest ESG strategy while Impact Investing is the smallest.

ESG Strategy AUM in Europe (Billions, USD)



	Exclusions	Engagement and Voting	ESG Integration	Norms-based Screening	Best-in-Class	Sustainability Themed	Impact Investing
2015	$11,397.50	$4,794.60	$2,971.50	$5,712.80	$554.00	$163.10	$110.40
2017	$10,627.20	$5,454.30	$4,760.80	$3,534.70	$657.70	$167.10	$121.90

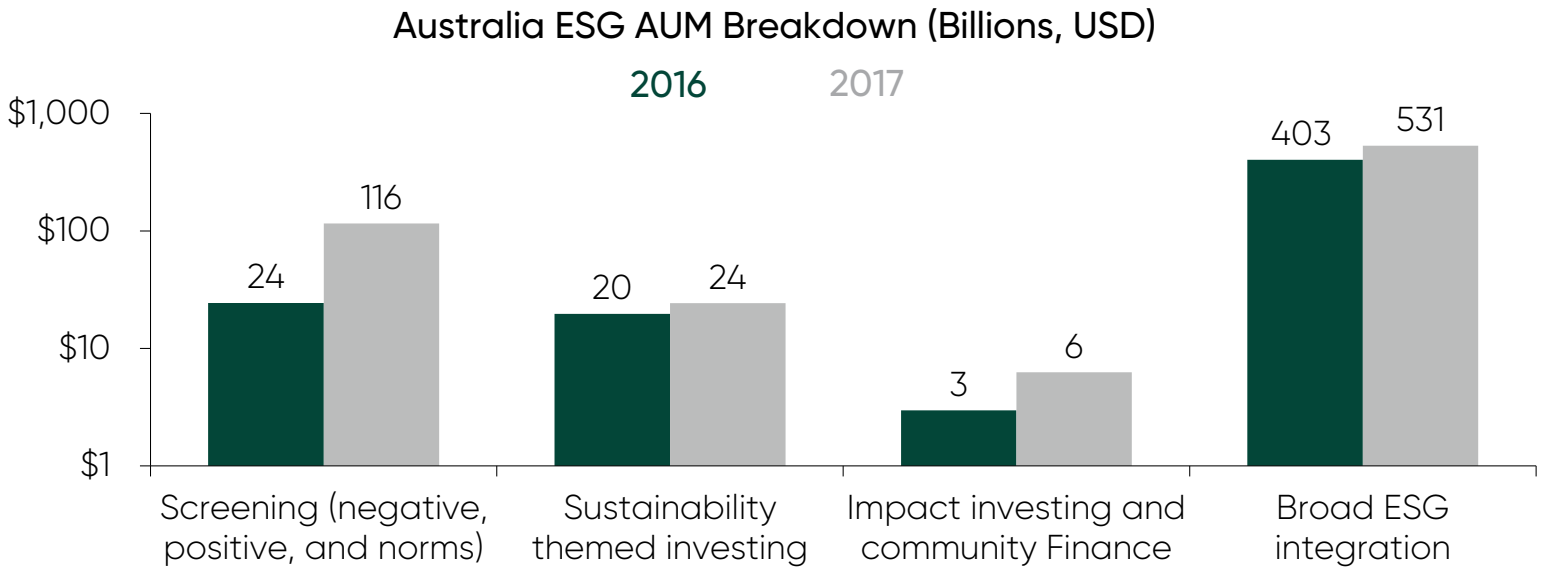
AUM Growth of Exclusions in Europe (Billions, USD)

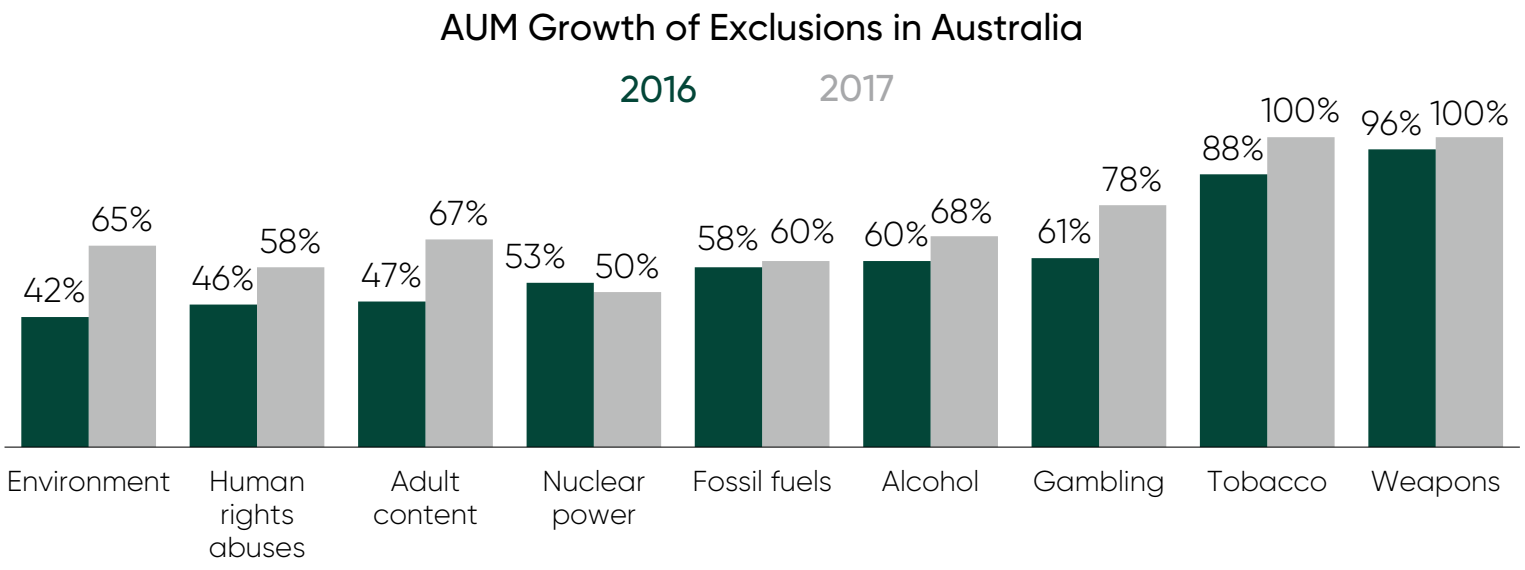


Source: European SRI Study 2018. All AUM is USD and based on 31/03/2019 conversion rates.

ESG IN AUSTRALIA

At $667 billion in AUM—up nearly 50% from $450 billion in 2016—ESG Investments make up the majority of all professionally managed assets in Australia.



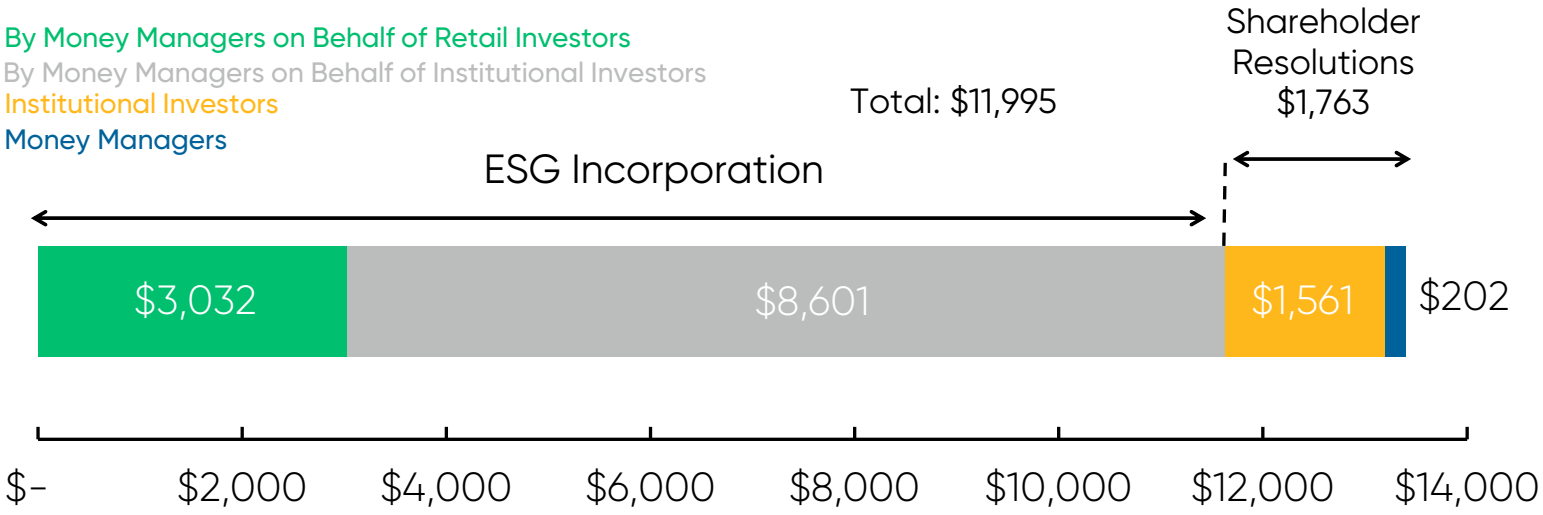


Source: Responsible Investment Benchmark Report 2018.

ESG IN THE UNITED STATES

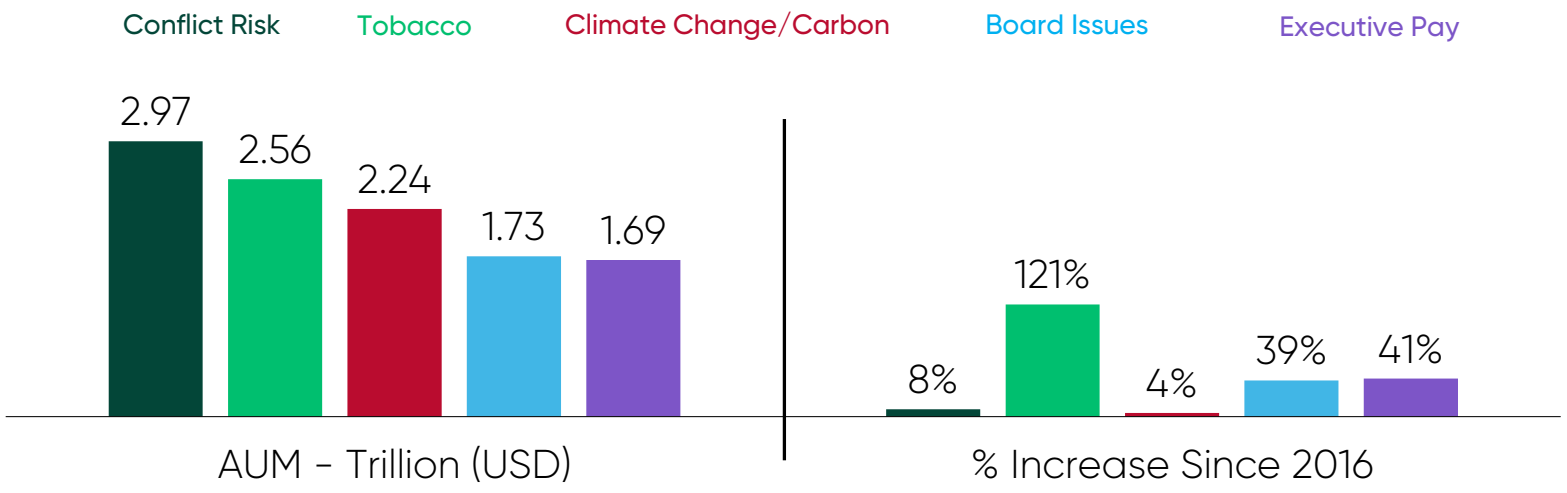
ESG investments represents $11.9 trillion dollars of US AUM in 2018—up 44% since 2016. $8.6 trillion is managed on behalf of institutional investors.

US 2018 ESG AUM Breakdown (Billions, USD)



Conflict Risk (Terrorist or Repressive Regimes) was the top ESG criteria evaluated in 2018, while tobacco was the fastest growing ESG consideration for US institutional investors.

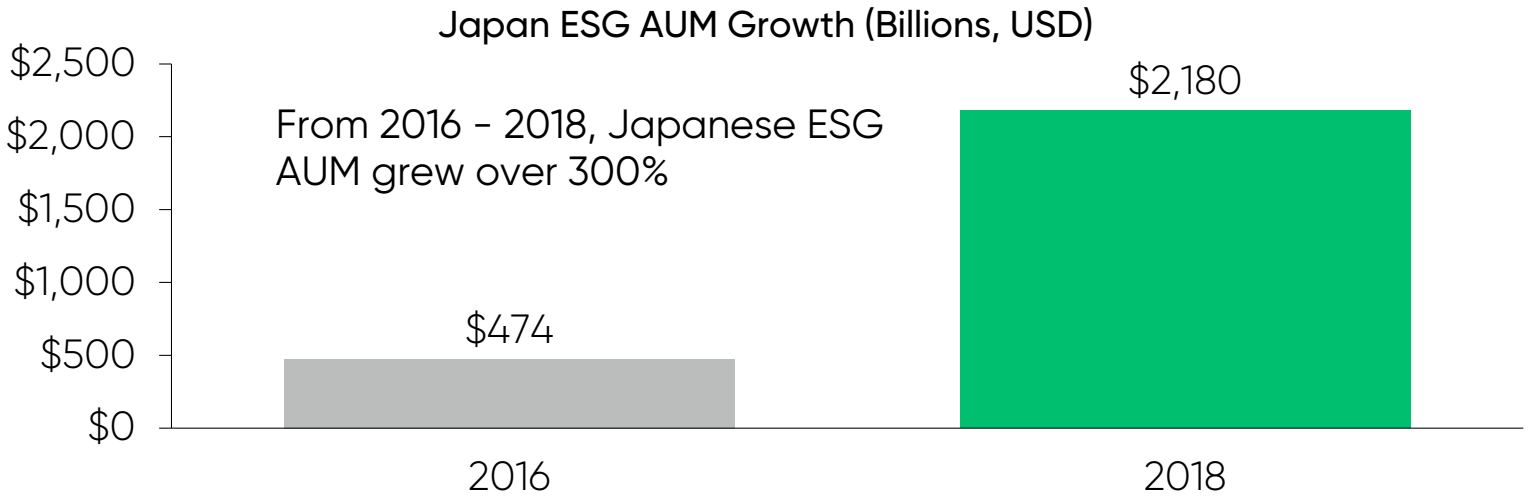
Top ESG Specific Criteria for US Institutional Investors



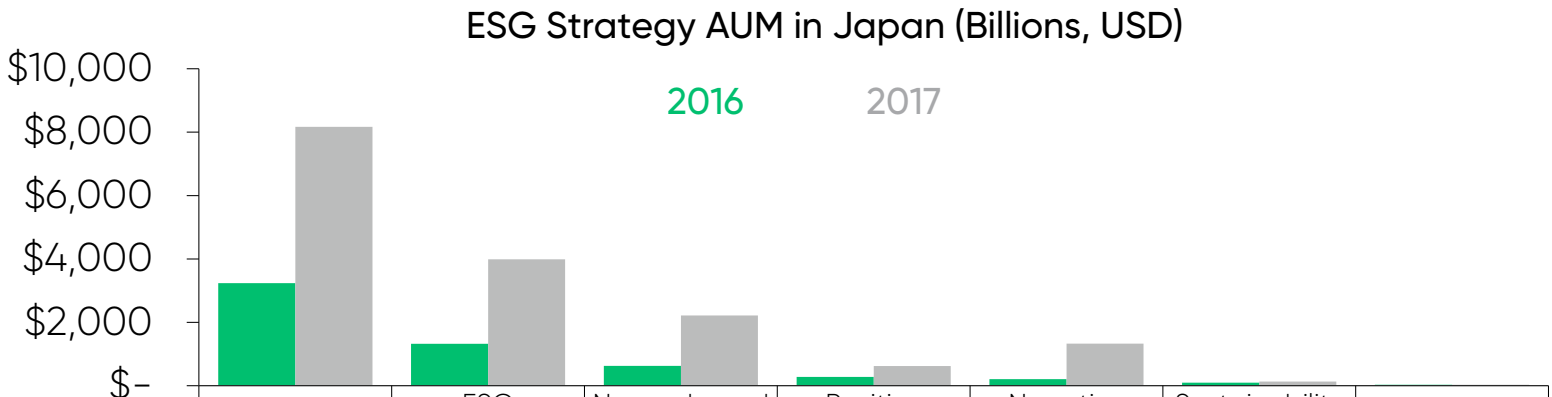
Source: US SIF Foundation 2018, Report on US Sustainable, Responsible and Impact Investing Trends.

ESG IN JAPAN

Japan is the fastest growing region for ESG AUM.



Corporate engagement and shareholder action strategies are the top Japanese ESG approaches, followed by ESG integration.

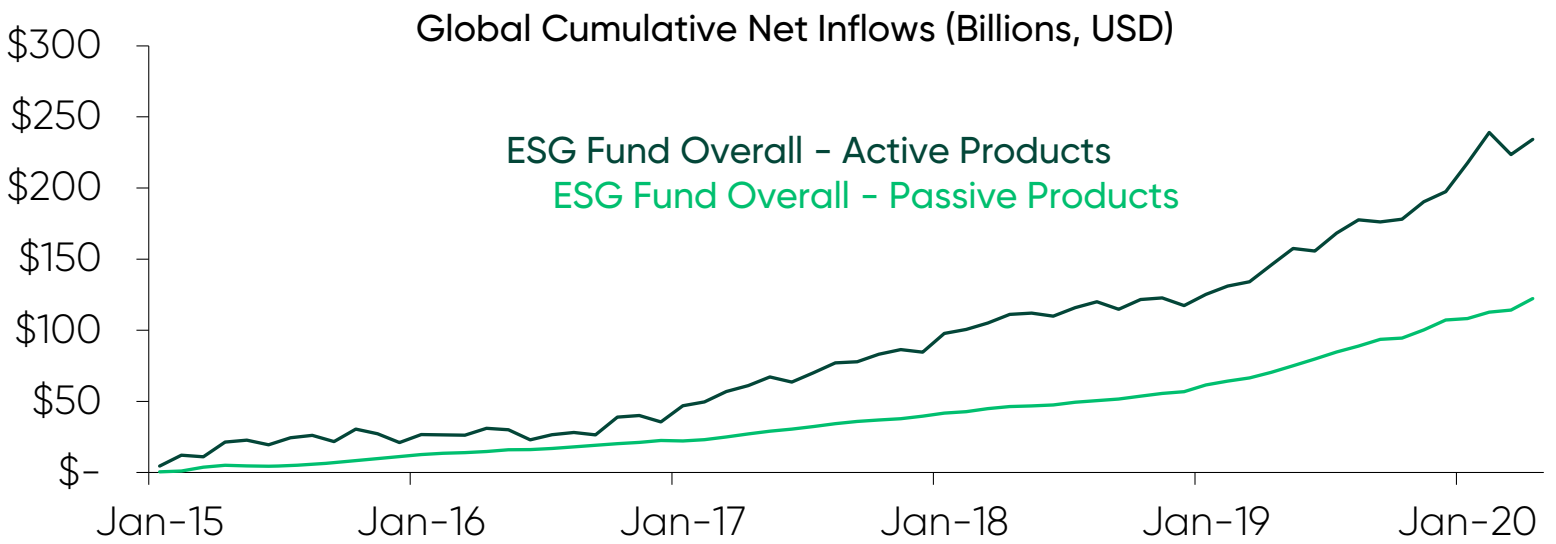


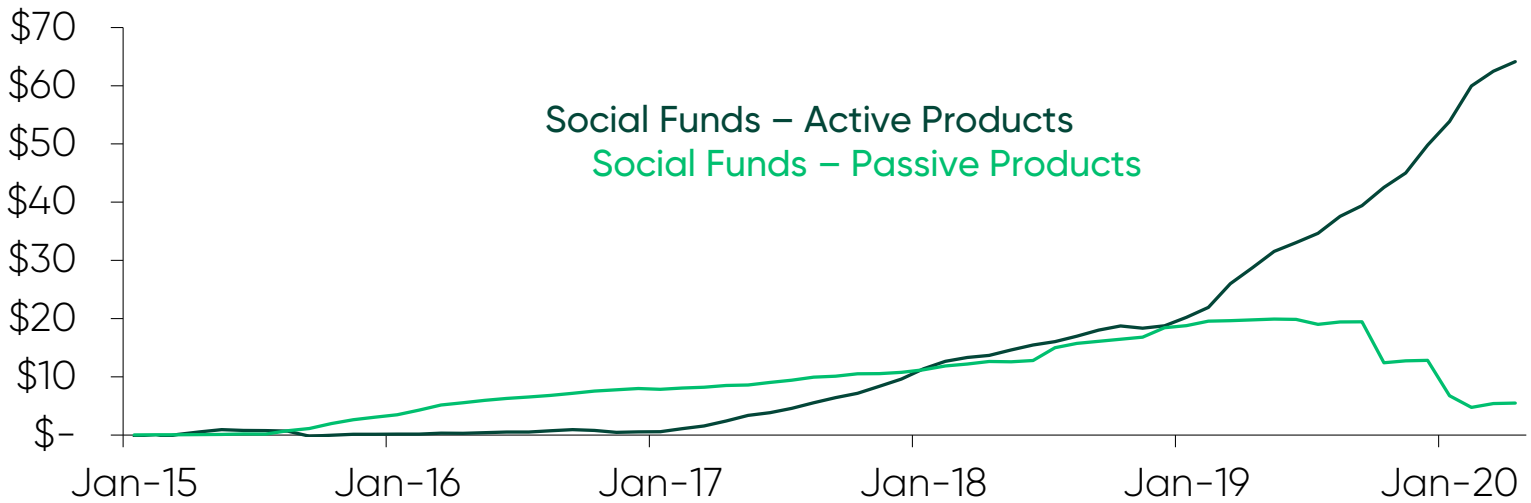
	Engagement	ESG Integration	Norms-based Screening	Positive Screening	Negative Screening	Sustainability -themed	Impact
2016	$3,238.40	$1,321.70	$625.80	$280.30	$208.80	$96.20	$34.30
2017	$8,171.30	$3,988.00	$2,219.10	$621.30	$1,328.20	$128.50	$34.60

Source: Top Chart: Global Sustainable Investment Review, Global Sustainable Investment Alliance, 2018.
Bottom Chart: Third Sustainable Investment Survey in Japan, Japan Sustainable Investment Forum, 2018.

INVESTORS PREFER ACTIVELY MANAGED ESG

Since mid-2015, net inflows into active products considered as ESG Funds by Morningstar has been growing at much faster clip than passive products. Active leading is even more evident for socially focused funds.

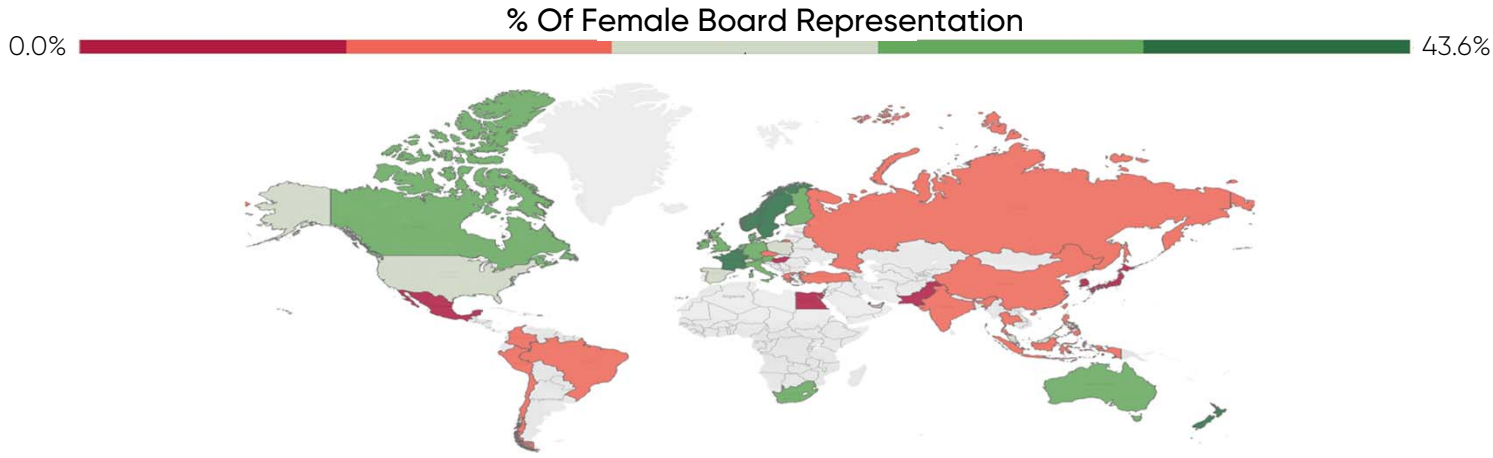




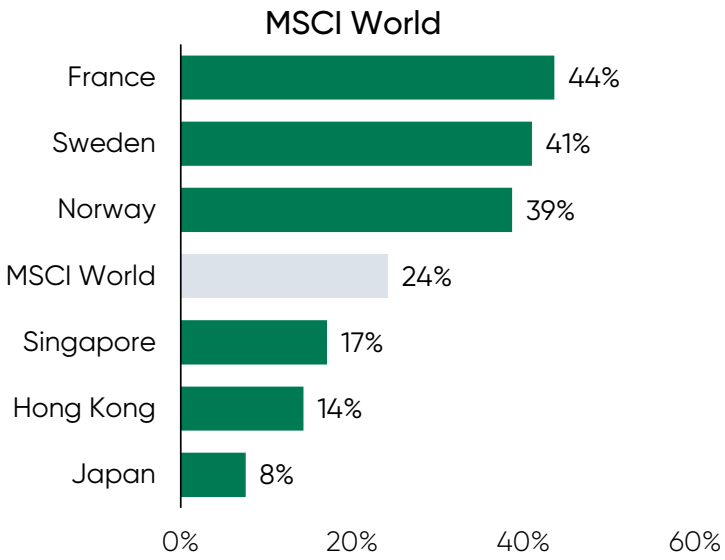
Source: Morningstar Direct as of 05/20/2020. Cumulative net flows shown for 01/01/2015 to 04/30/2020. Top chart shows active and passive cumulative net inflows for all open-end funds & ETF's classified as satisfying the "ESG overall" sustainable investment criteria (17,649 products). Bottom chart shows active and passive cumulative net inflows for all open-end funds & ETF's classified as satisfying the "Gender & Diversity" and/or "Community Development" sustainable investment criteria (2,373 Products). As products may satisfy multiple criteria, some funds may be represented on both charts.

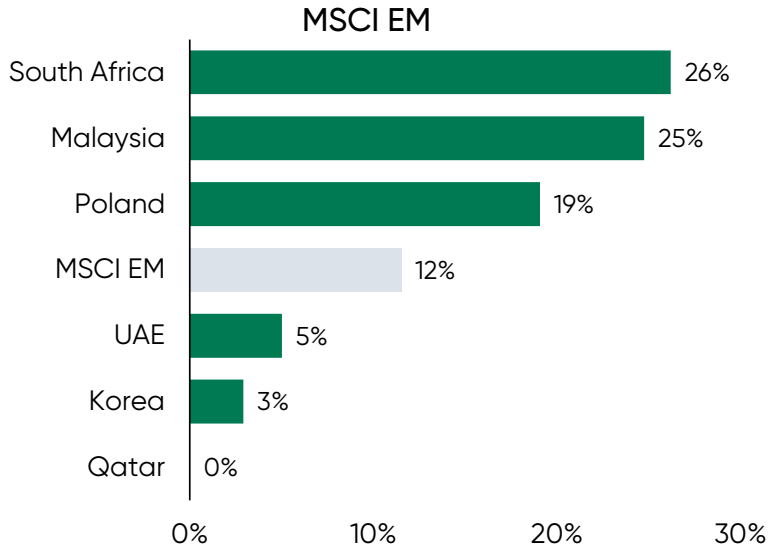
GLOBAL BOARD DIVERSITY

The percentage of board directors who are women varies across countries with developed markets leading at an average of 24%.



South African female board representation is in line with DM markets. On the other hand, the 8% Japanese female board participation rate is below the Emerging Market average of 12%.





Source: MSCI ESG Research, as of 12/31/2019.

RENEWABLE ENERGY OPPORTUNITIES

- EM companies tend to have higher carbon emission relative to DM with the majority of emissions concentrated in the utilities, materials and energy sector.

- Globally, wind and solar power generation is becoming cheaper than fossil fuels.

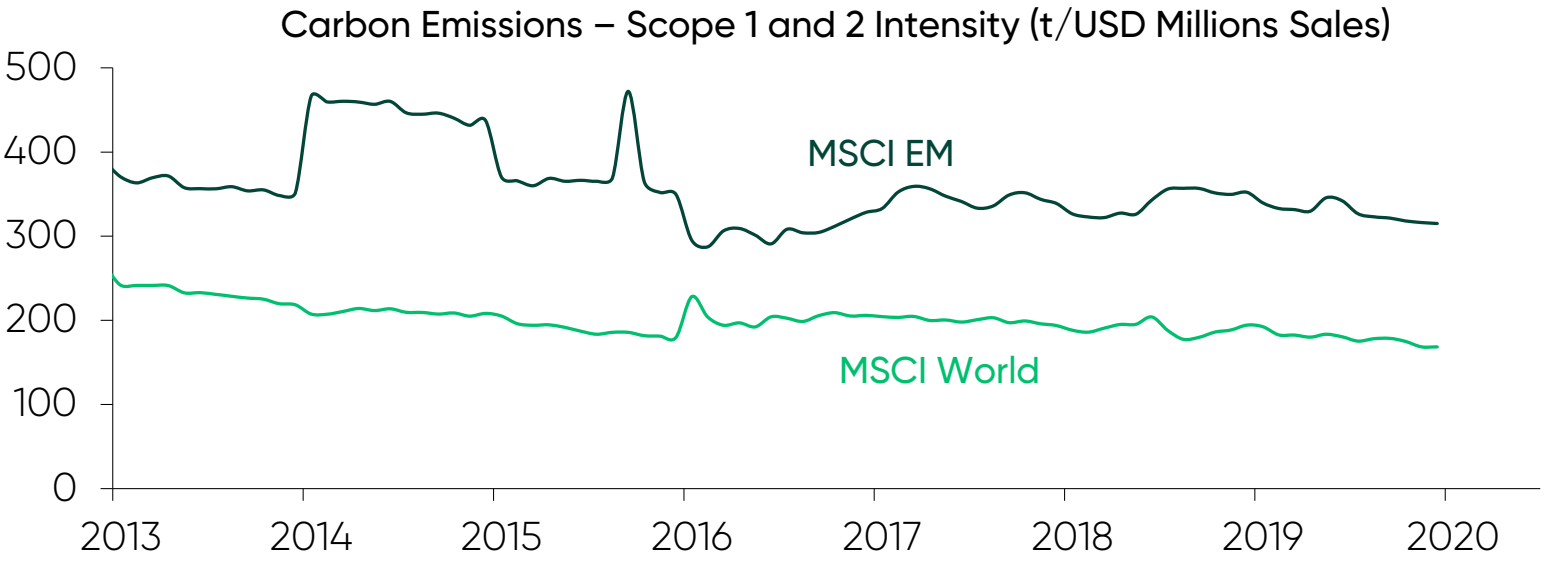
- Cloud services that are provided by technology companies support energy efficiency and renewable energy use.

- Divesting fully from carbon can create unintended style bias and missed opportunities from larger energy firms with renewable energy exposure.

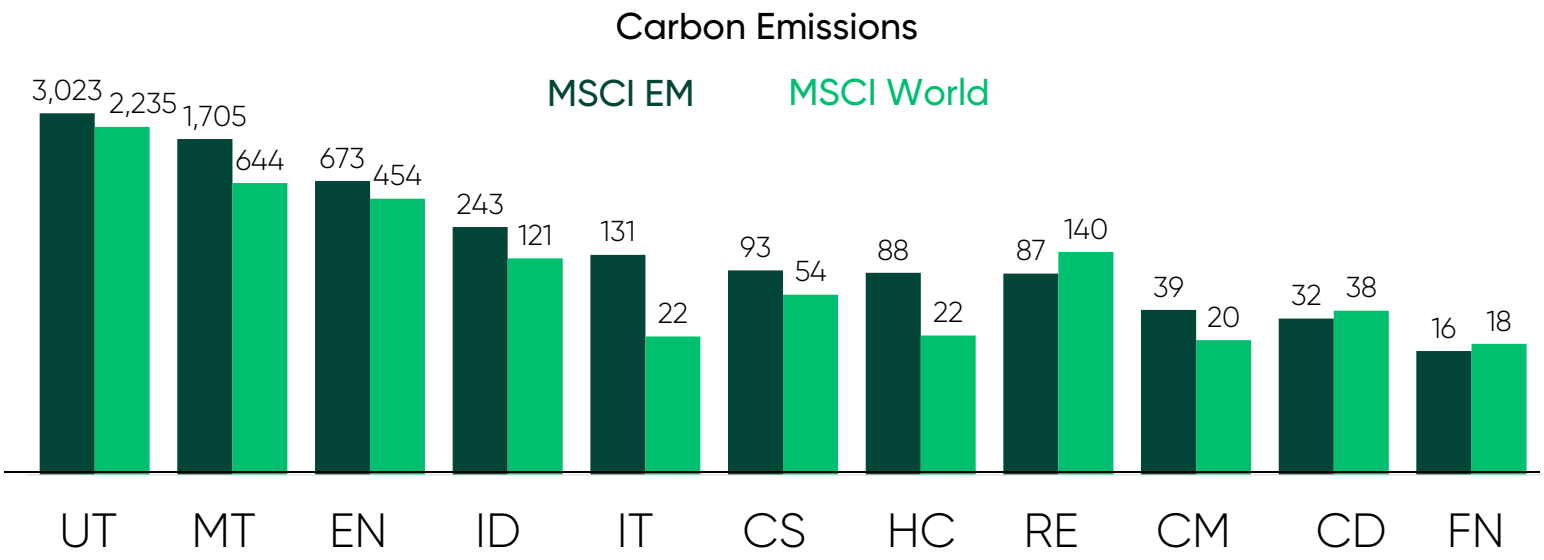
As of 06/30/2020.

UNDERSTANDING TOP-DOWN CARBON EXPOSURES

Historically, EM companies exhibit higher carbon emissions than DM.



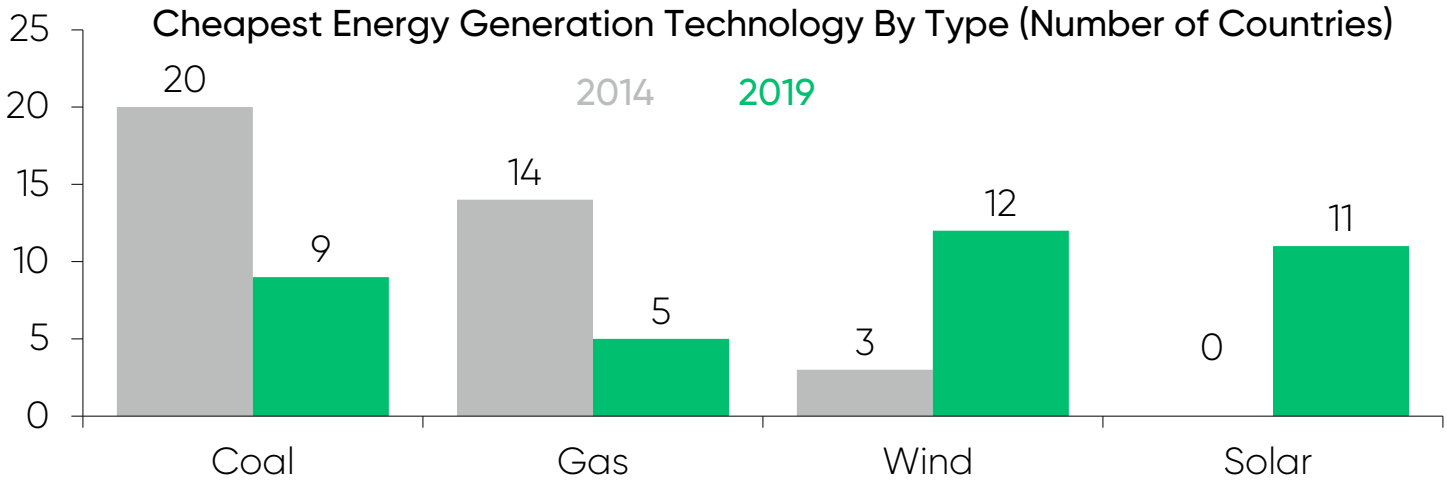
The majority of carbon emissions are in the Utilities, Materials and Energy sectors.



Source: MSCI ESG Research, Factset Portfolio Analysis as of 05/31/2020.

WIND & SOLAR ENERGY IS BECOMING CHEAPER THAN COAL

Continuing technological innovations are making low carbon energy production the cheapest source of power in many major countries.



Fossil fuel production was the cheapest energy source in 2014. By 2019, technological advances from a higher number of renewable energy producers drives the economic viability of clean energy.

Cheapest Energy Generation Technology By Country

2014

Coal	Gas	Wind	Solar
Belgium	Algeria	Denmark	None
Bulgaria	Argentina	Germany	
Chile	Australia	Uruguay	
China	Brazil		
France	Canada		
Greece	Egypt		
India	Israel		
Indonesia	Mexico		
Italy	Peru		
Japan	Philippines		
Malaysia	Russia		
Morocco	Saudi Arabia		
Poland	United States		
South Africa	UAE		
South Korea			
Spain			
Thailand			
Turkey			
United Kingdom			
Vietnam			

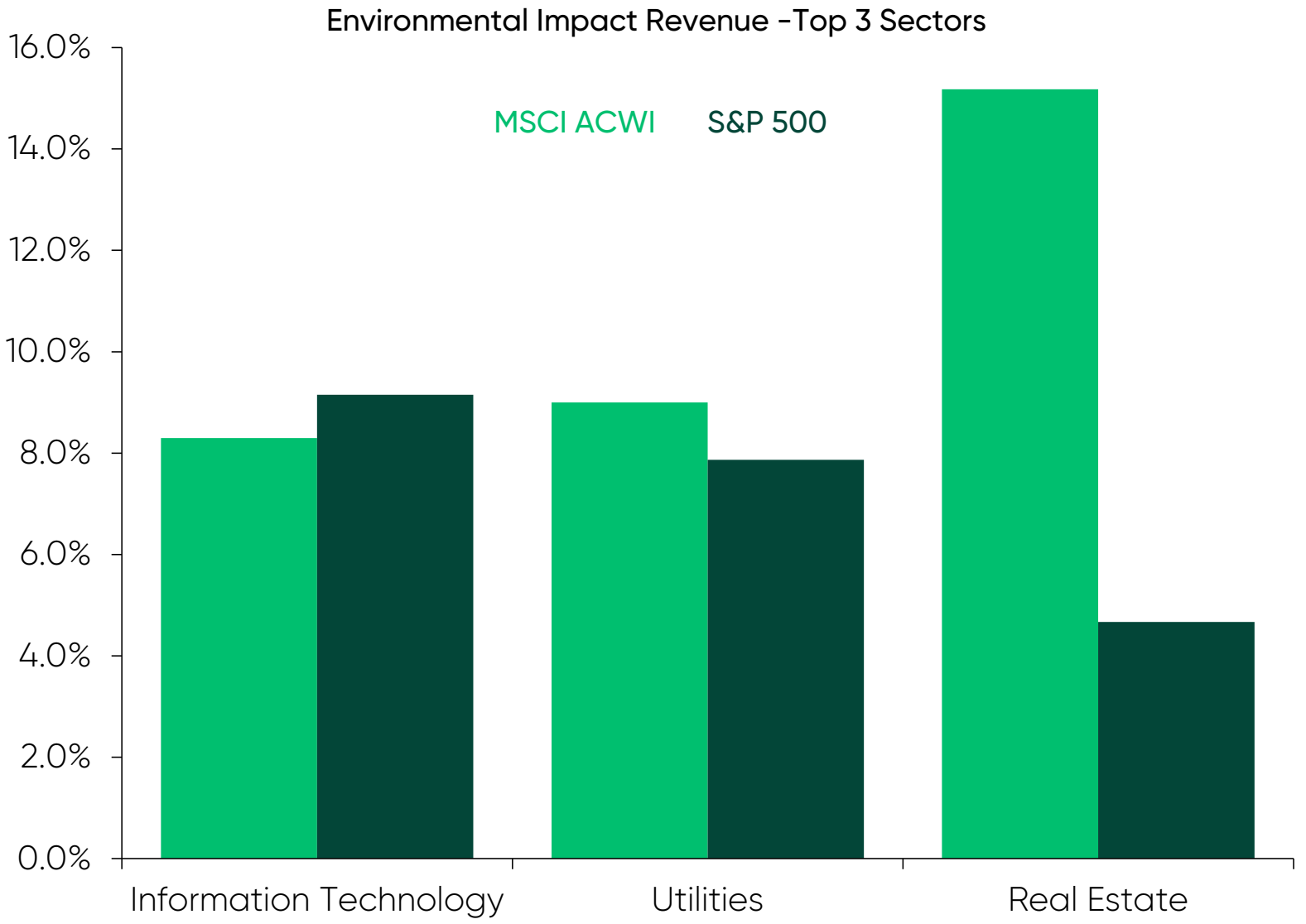
2019

Coal	Gas	Wind	Solar
Indonesia	Algeria	Argentina	Australia
Japan	Belgium	Brazil	Chile
Malaysia	Bulgaria	Canada	Egypt
Philippines	Greece	China	France
Poland	Russia	Denmark	India
South Korea		Germany	Israel
Thailand		Mexico	Italy
Turkey		Morocco	Saudi Arabia
Vietnam		Peru	South Africa
		United Kingdom	Spain
		United States	UAE
		Uruguay	

Source: MSCI ESG Research as of 05/31/2020.

TECH FIRMS ARE DRIVING CLEAN ENERGY GROWTH

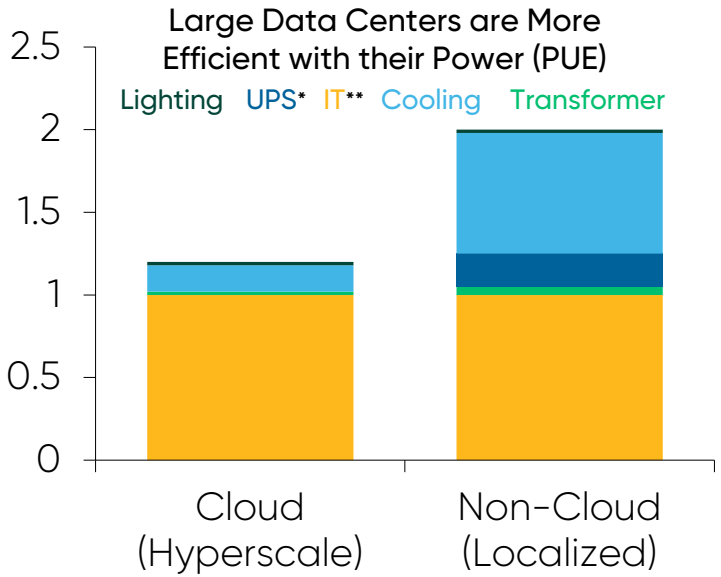
The Information Technology sector derives the highest amount of revenue from environmental impact solutions—green buildings, energy efficiency, etc.—across global and US markets. Tech firms play a huge role in addressing climate change because many efficiencies gained in energy usage are driven by improvements in technology.

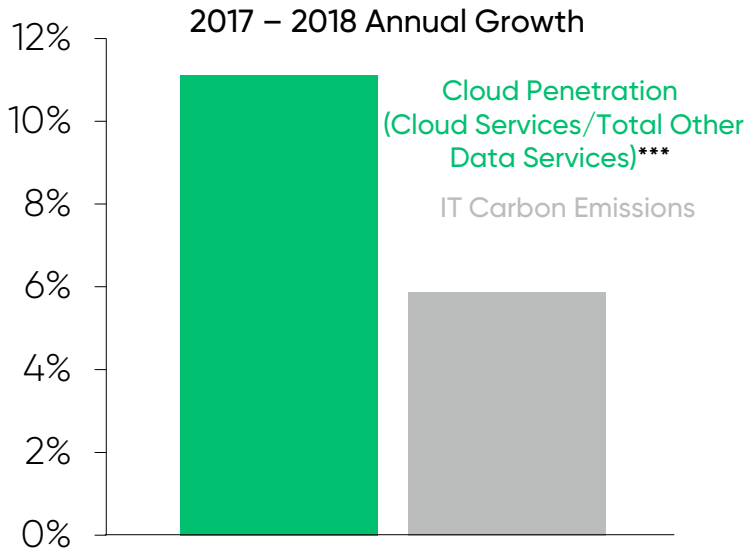


Source: MSCI ESG Research as of 05/31/2020.

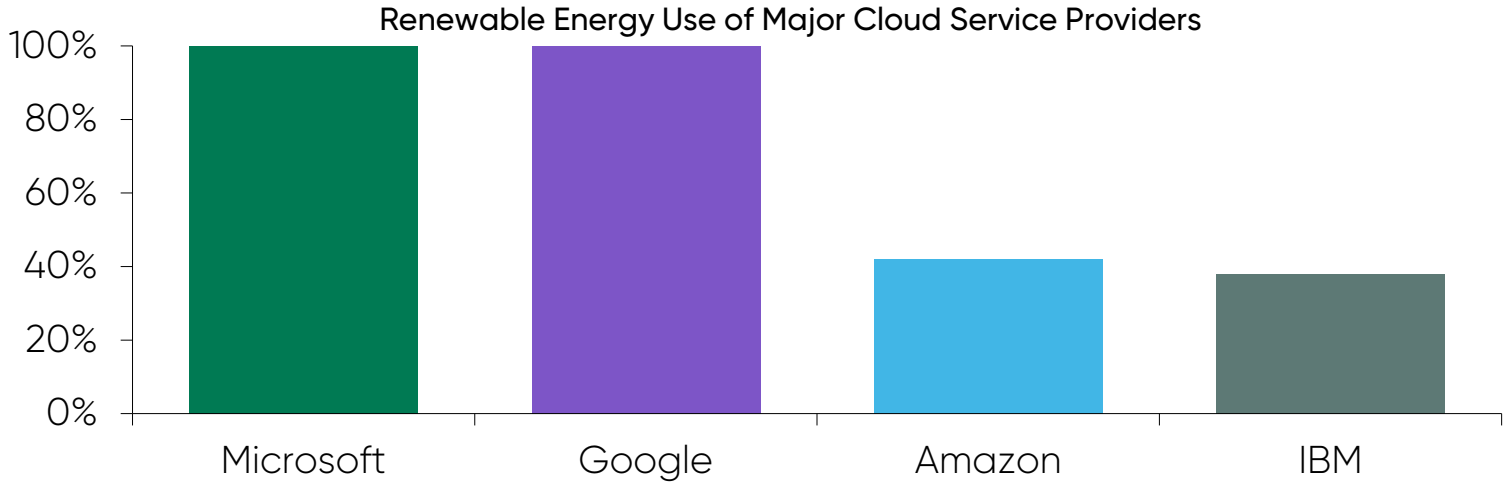
CLOUD COMPUTING COMBATTING CLIMATE CHANGE

Cloud hyperscale data centers are almost twice as energy efficient as localized data centers. Cloud use growth is nearly double that of the IT sector's carbon emissions growth.





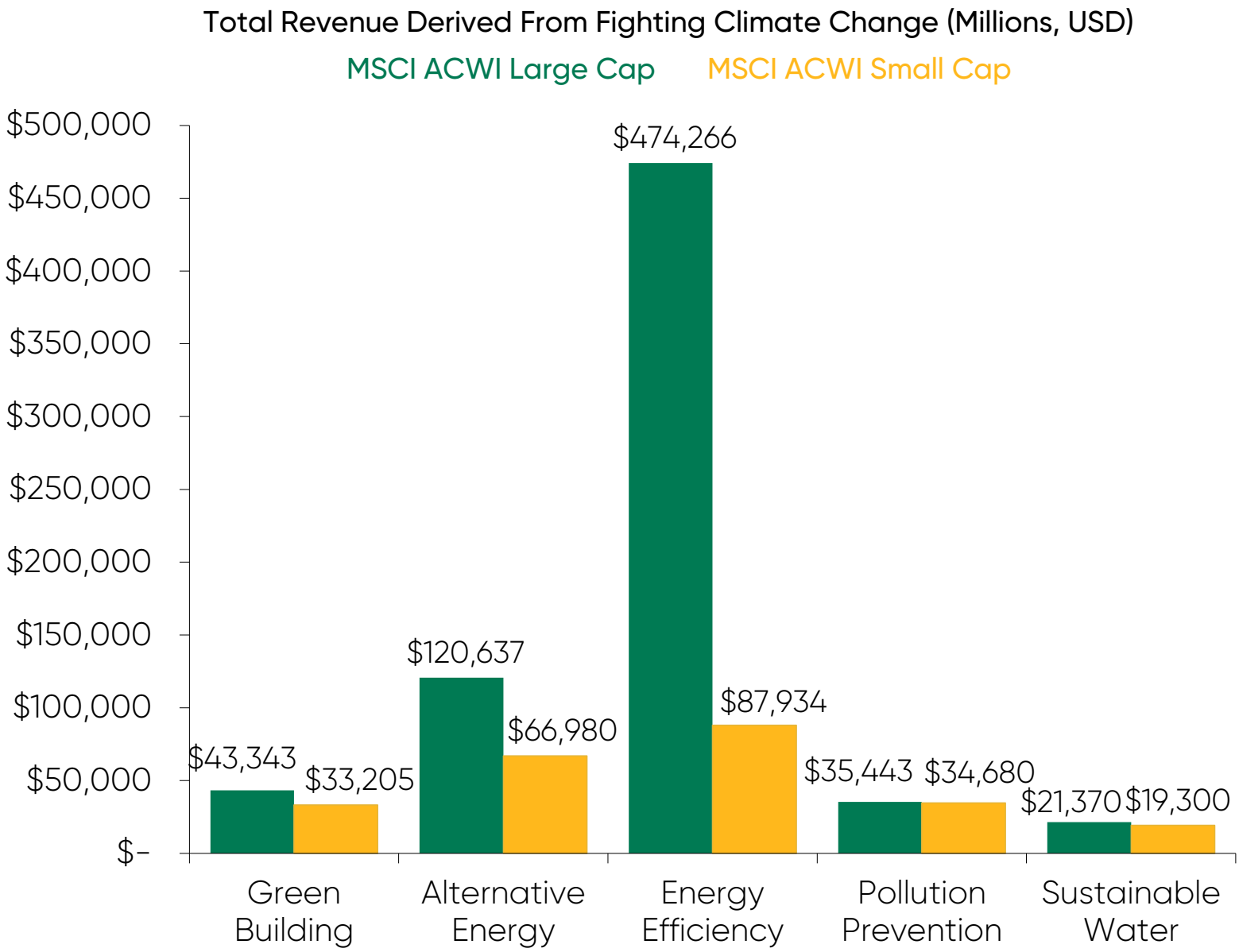
Each of the four largest cloud service providers leads in renewable energy consumption. Microsoft and Google currently purchase enough renewable energy to match all of their electricity consumption. Amazon committed to 100% renewable use by 2025, and IBM is aiming for 55% renewable use by 2025.



*Top left chart source: Lawrence Berkely National Laboratory, June 2016. Top right chart source: Gartner as of Q1 2020, MSCI ESG as of 06/30/2020. Bottom chart source: Microsoft, Google, Amazon and IBM as of 06/30/2020. *Uninterruptible Power Supply. **Data Servers, Networking and Storage. ***Cloud Services = PaaS services + IaaS (Cloud System Infrastructure) services; Non-Cloud Growth = Infrastructure Software (Ex-PaaS) + Other Data Center Services + IT Hardware + Support Services.*

MISSED OPPORTUNITIES FROM LARGE ENERGY FIRM DIVESTMENT

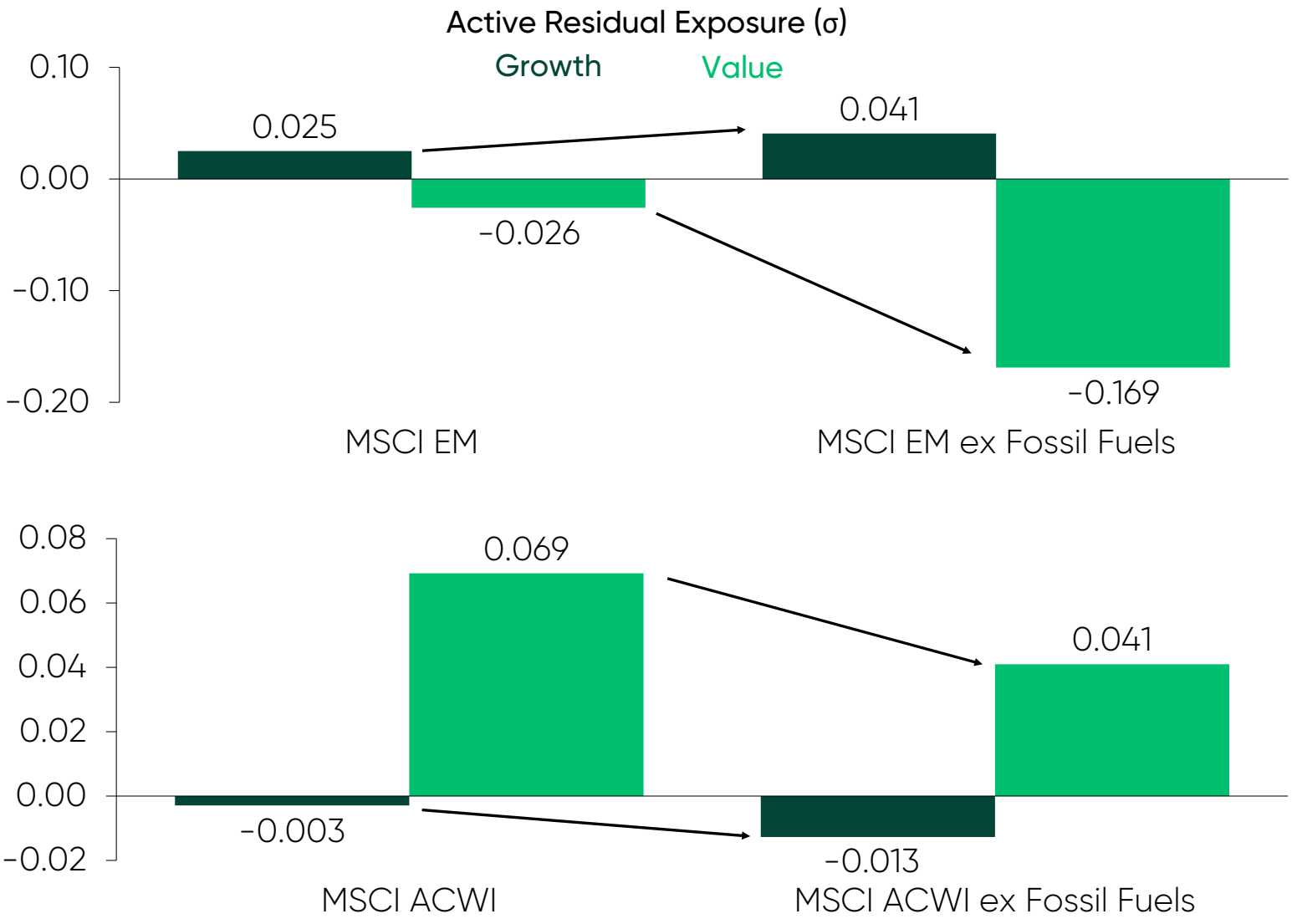
Despite receiving the bulk of negative media attention, large companies—including energy firms—are directing capital toward activities focused on solving sustainability challenges.



Source: MSCI ESG Research as of 05/31/2020.

REMOVING FOSSIL FUELS MAY CREATE STYLE BIAS

Removing Fossil Fuels increases growth exposure, creating unintended style bias. Active management is optimal when navigating Growth/Value market cycles for ESG investors.



Source: MSCI ESG Research, Barra Portfolio Manager, and Factset Portfolio Analysis as of 05/31/2020.

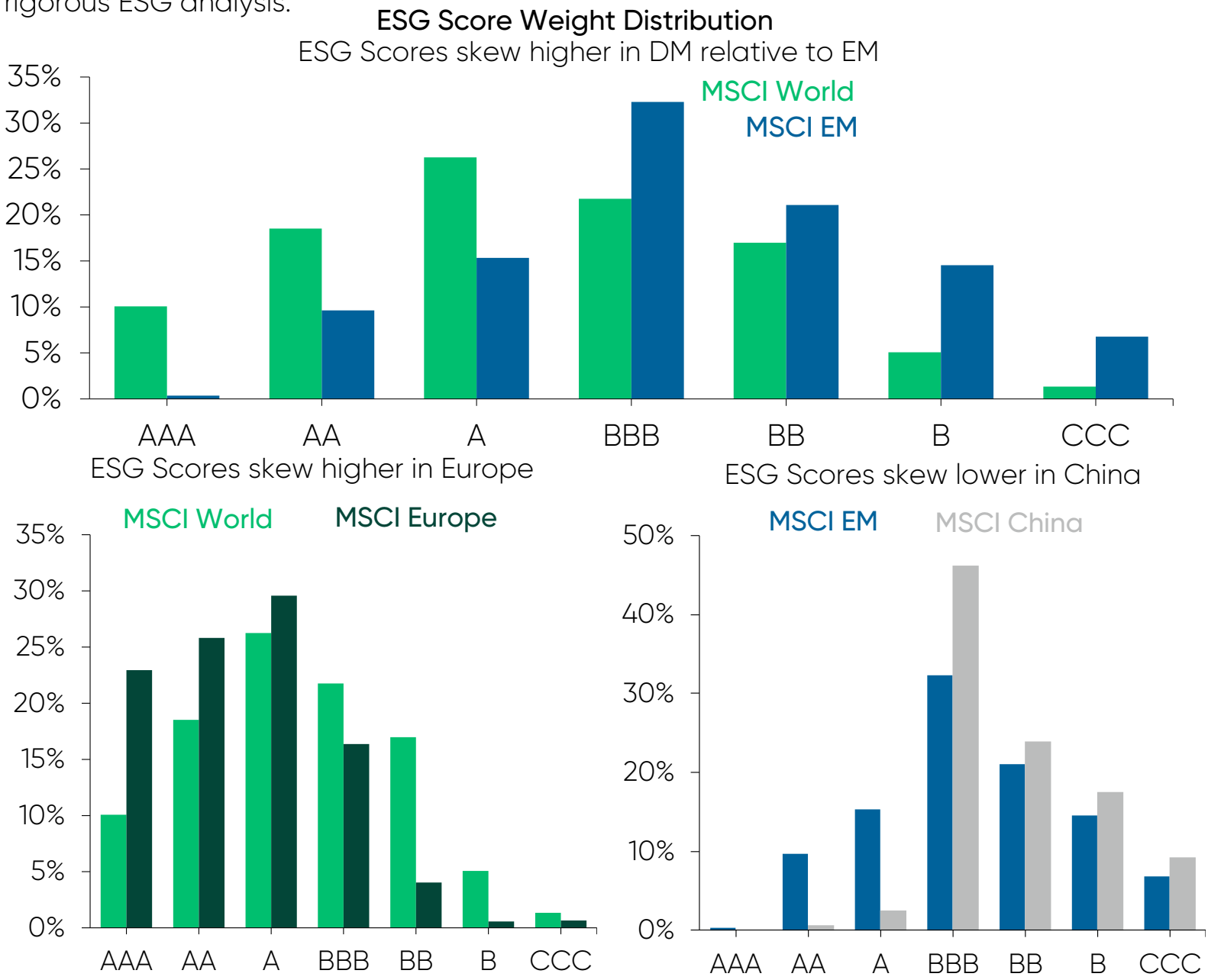
LIMITATIONS OF ESG SCORES

- Despite increases in company ESG data, over-reliance on ESG scores may lead to unintended portfolio risks.
- Larger companies from developed markets tend to have higher ESG scores.
- Restricting companies based on ESG scores can materially restrict the investable universe and cause industry, size and style bias.
- ESG scores have a limited history of data coverage across major indexes.
- ESG scores could be serve as a non-financial proxy for quality exposure.

As of 06/30/2020.

LARGER COMPANIES FROM DEVELOPED MARKETS TEND TO HAVE HIGHER ESG SCORES

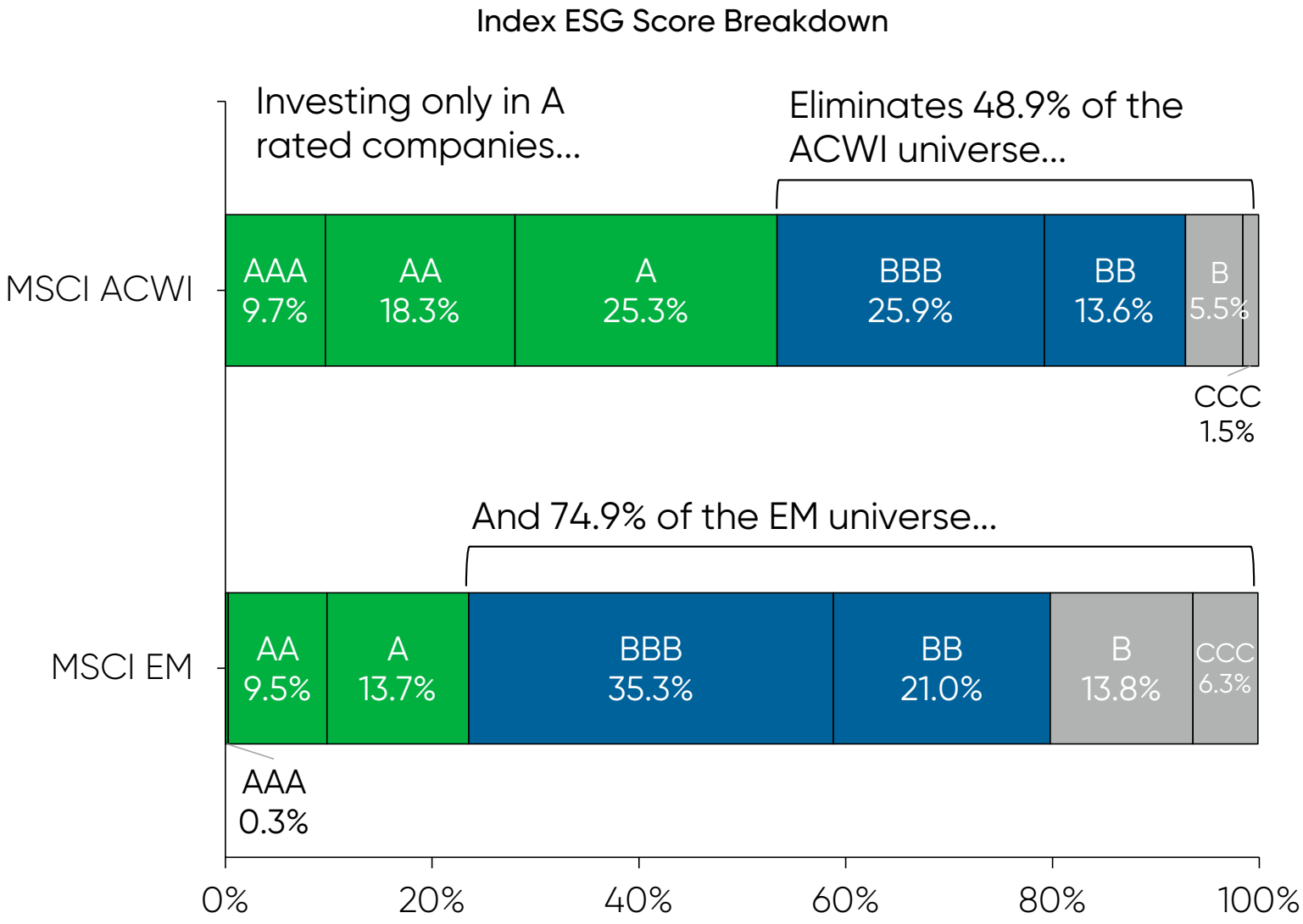
Understanding high level Top-Down ESG trends prior to equity selection facilitates more rigorous ESG analysis.



Source: MSCI ESG Research, Factset Portfolio Analysis as of 12/31/2019.

ELIMINATING COMPANIES BASED ON ESG SCORES RESTRICTS THE INVESTABLE UNIVERSE

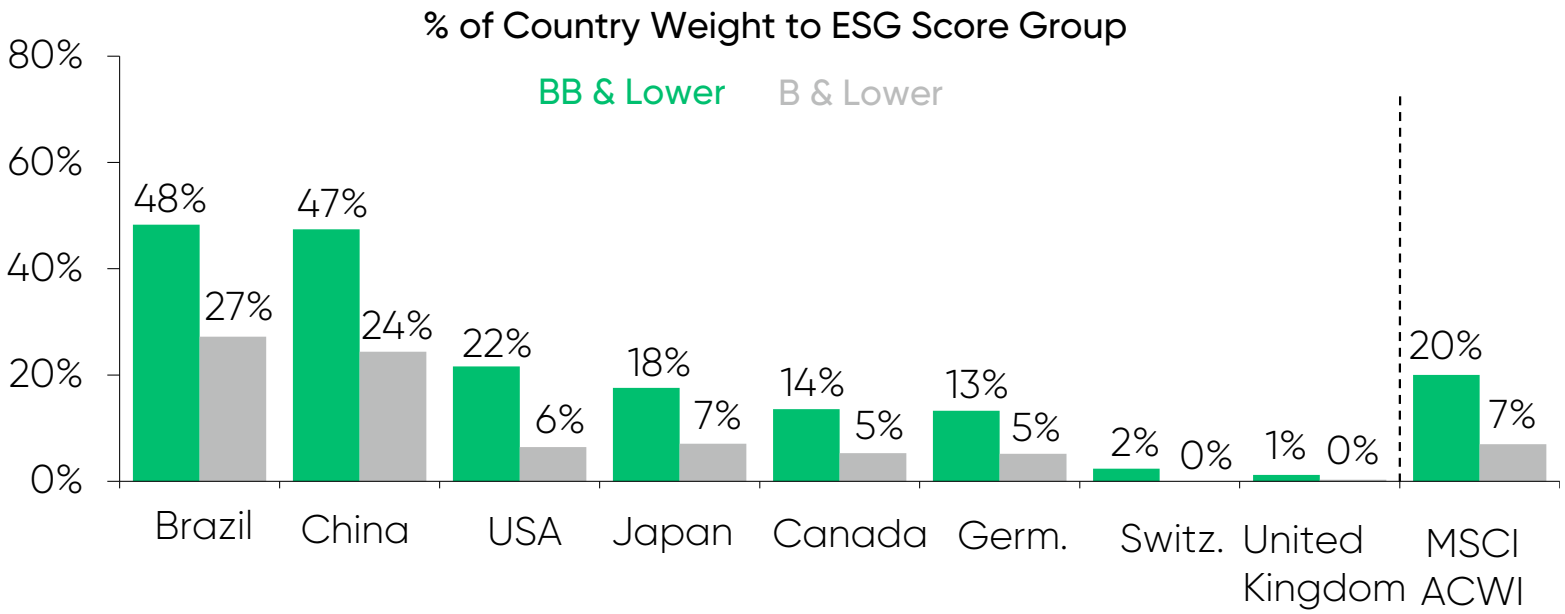
In DM and EM, the investable universe is materially restricted by eliminating companies based on ESG scores.

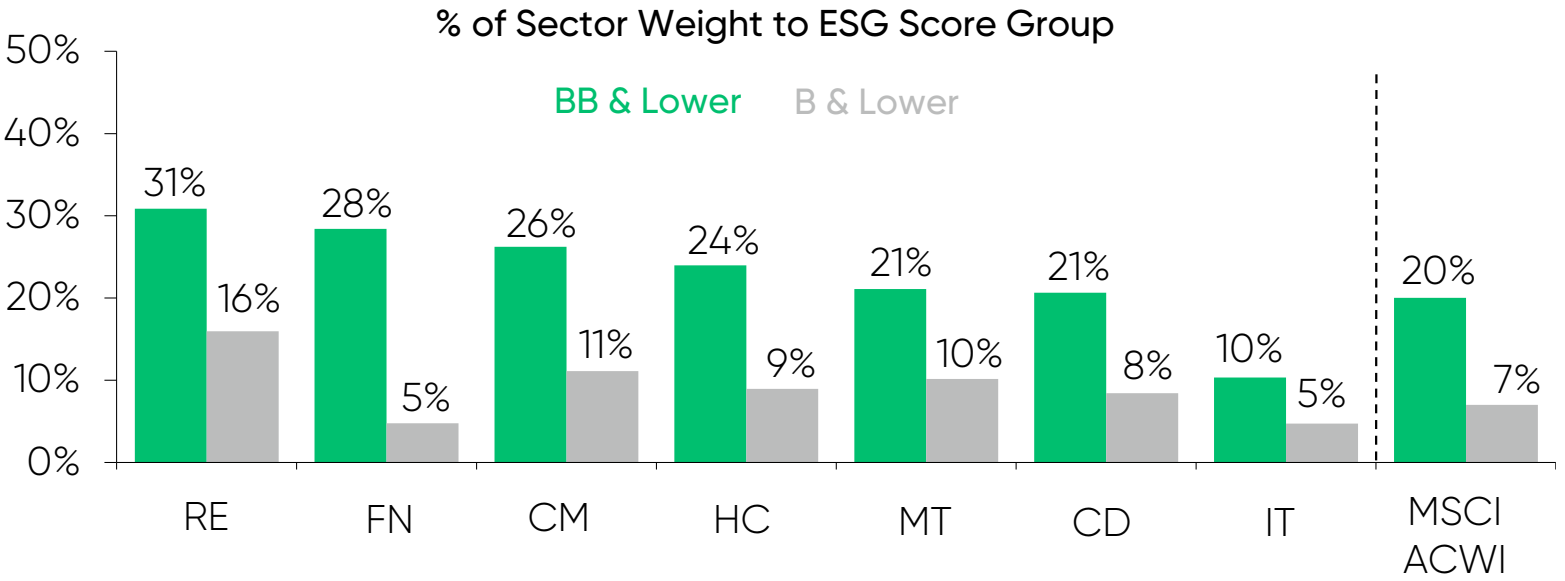


Source: MSCI ESG Research and FactSet Portfolio Analysis as of 12/31/2019.

ESG SCREENS MAY LEAD TO UNINTENDED CONCENTRATIONS

Removing companies with lower ESG scores greatly restricts security selection within MSCI ACWI countries and sectors.



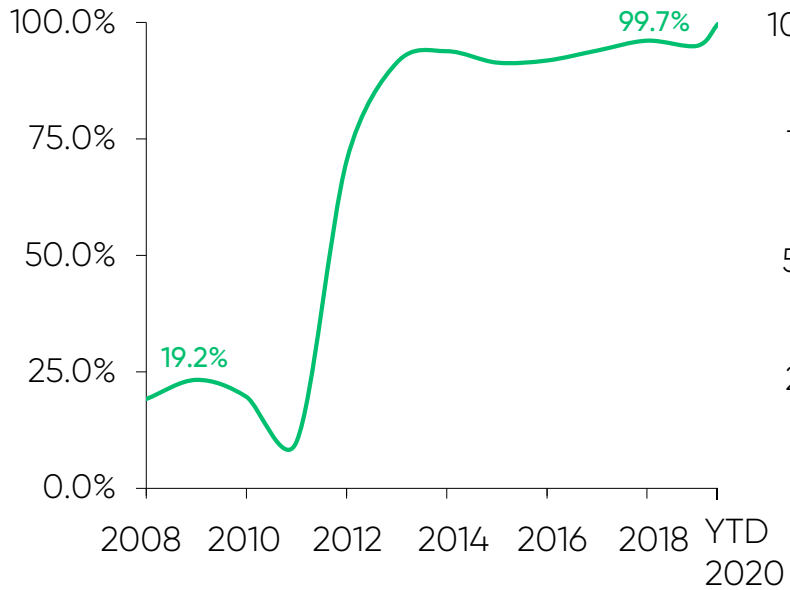


Source: MSCI ESG Research, Factset Portfolio Analysis based on MSCI ACWI as of 05/31/2020.

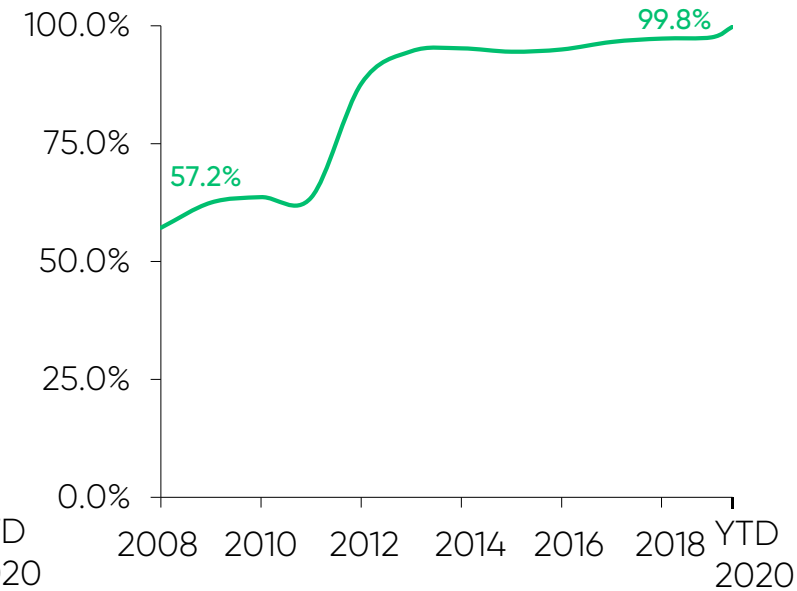
LIMITED HISTORICAL ESG SCORE COVERAGE LIMITS USEFULNESS

Prior to 2013, company level ESG scores were not comprehensive enough to facilitate meaningful analysis. Limited historical overall ESG score coverage creates attractive opportunities for active managers in the space.

MSCI EM – (%) ESG Score Coverage

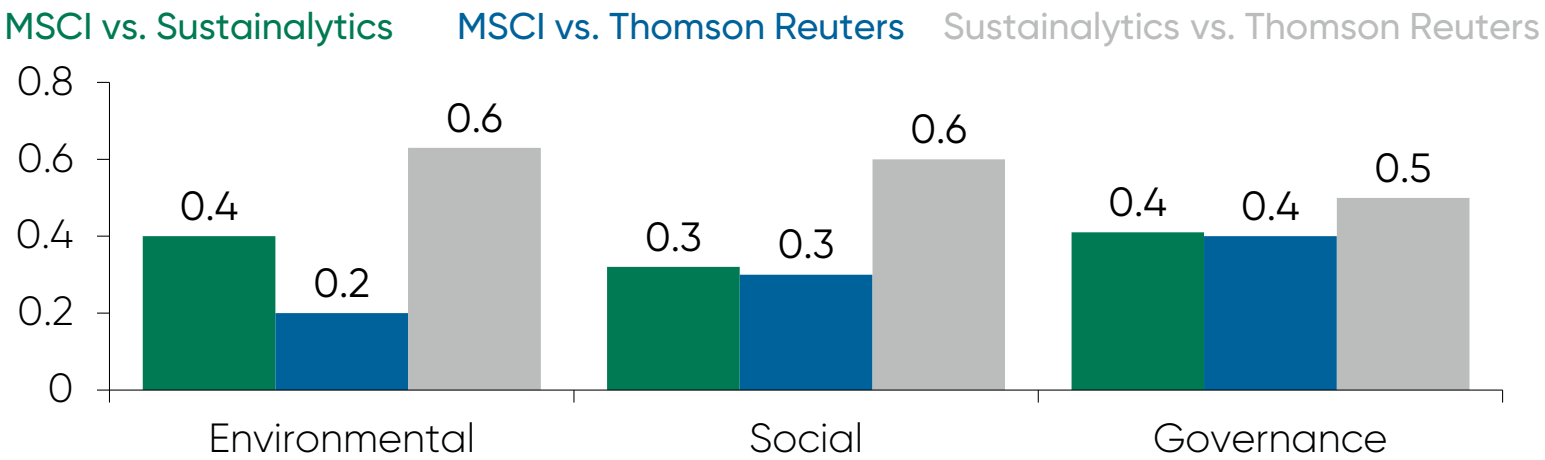


MSCI ACWI – (%) ESG Score Coverage



ESG score correlations across different rating providers are surprisingly low.

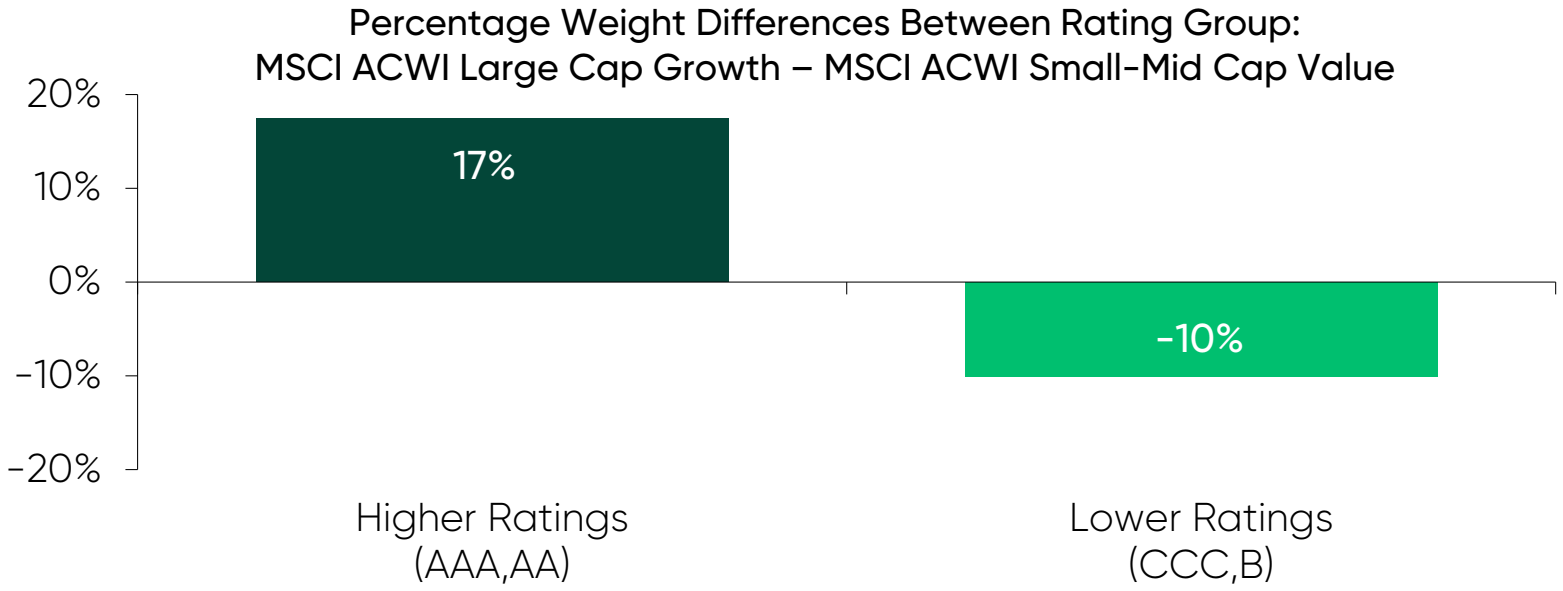
Correlation Between ESG Scores



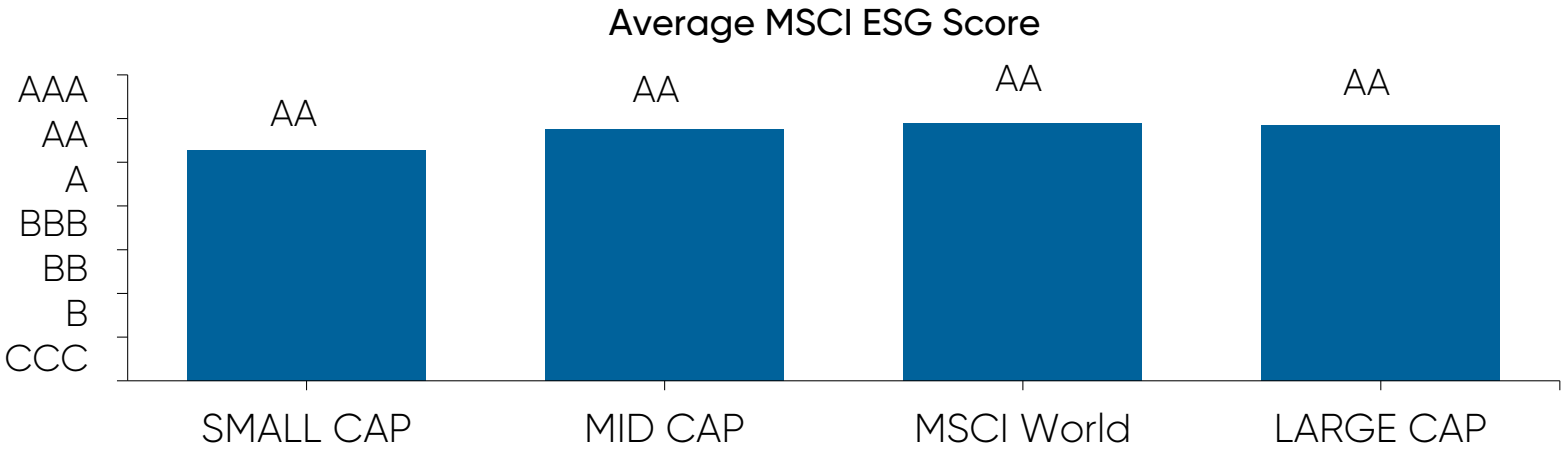
Top Charts: MSCI ESG Research and FactSet Portfolio Analysis as of 05/31/2020.
Bottom Chart: Schroders as of 05/31/2020.

ESG SCORES OFTEN CORRELATE TO STANDARD INVESTMENT STYLE FACTORS

Larger companies are structurally advantaged to receive higher ESG ratings. To an extent, ESG scores reflect what is easy to measure, rewarding companies producing—often self-reported and unaudited—sustainability and corporate responsibility reports. ESG rating differences may result in part from the capacity constraints faced by otherwise well managed small companies.



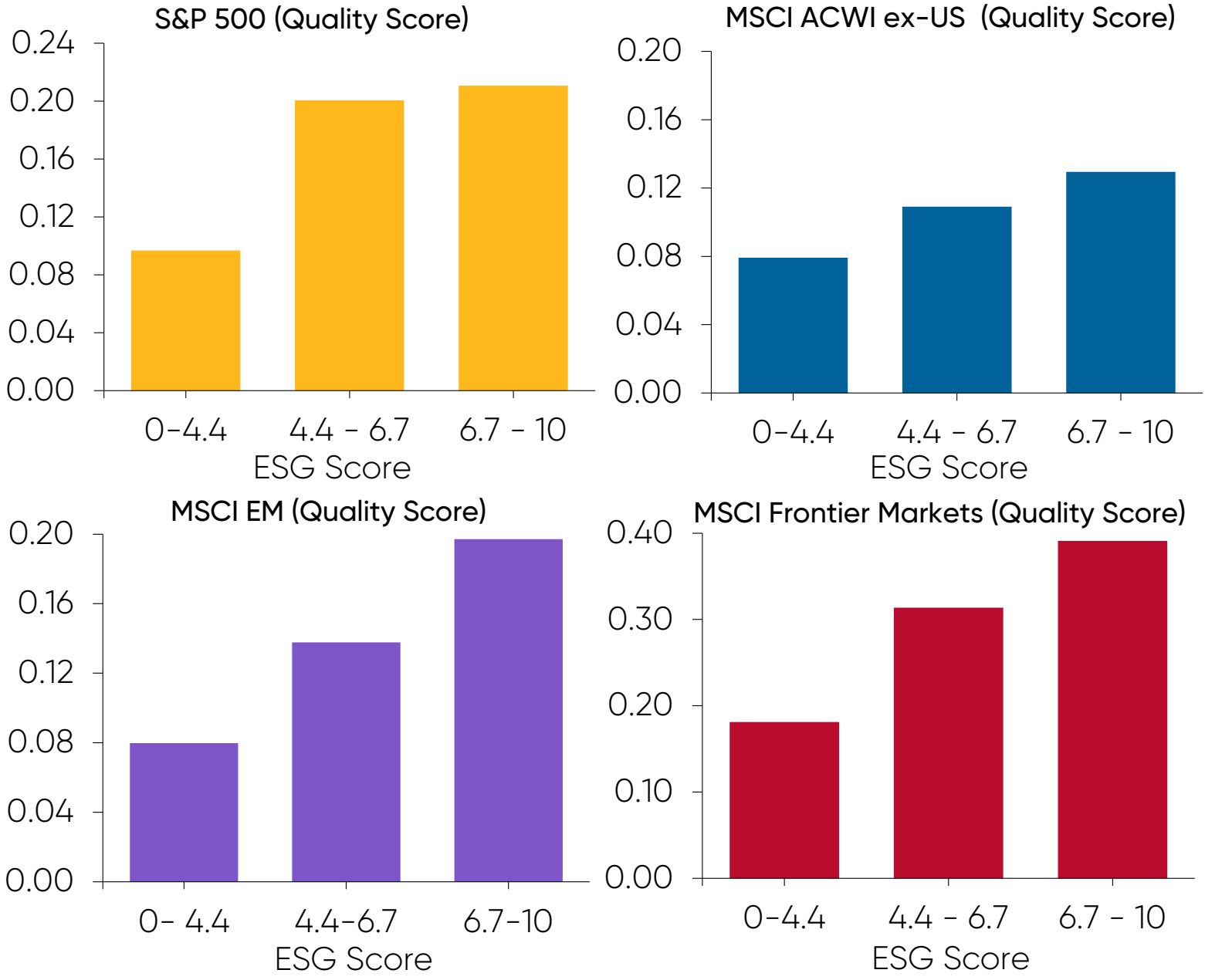
Large cap companies on average receive slightly higher ESG scores than Small Cap.



Top chart: Fisher Investments, FactSet, MSCI ESG Research. Weight to ratings groups as of 03/31/2020.
Bottom Chart: MSCI ESG Research, Factset Portfolio Analysis as of 12/31/2019.

IDENTIFYING TOP-DOWN ESG STYLE TRENDS

Companies with higher quality exposures—via Return on Equity, Earnings Variability and Debt to Equity—tend to have higher ESG Scores.

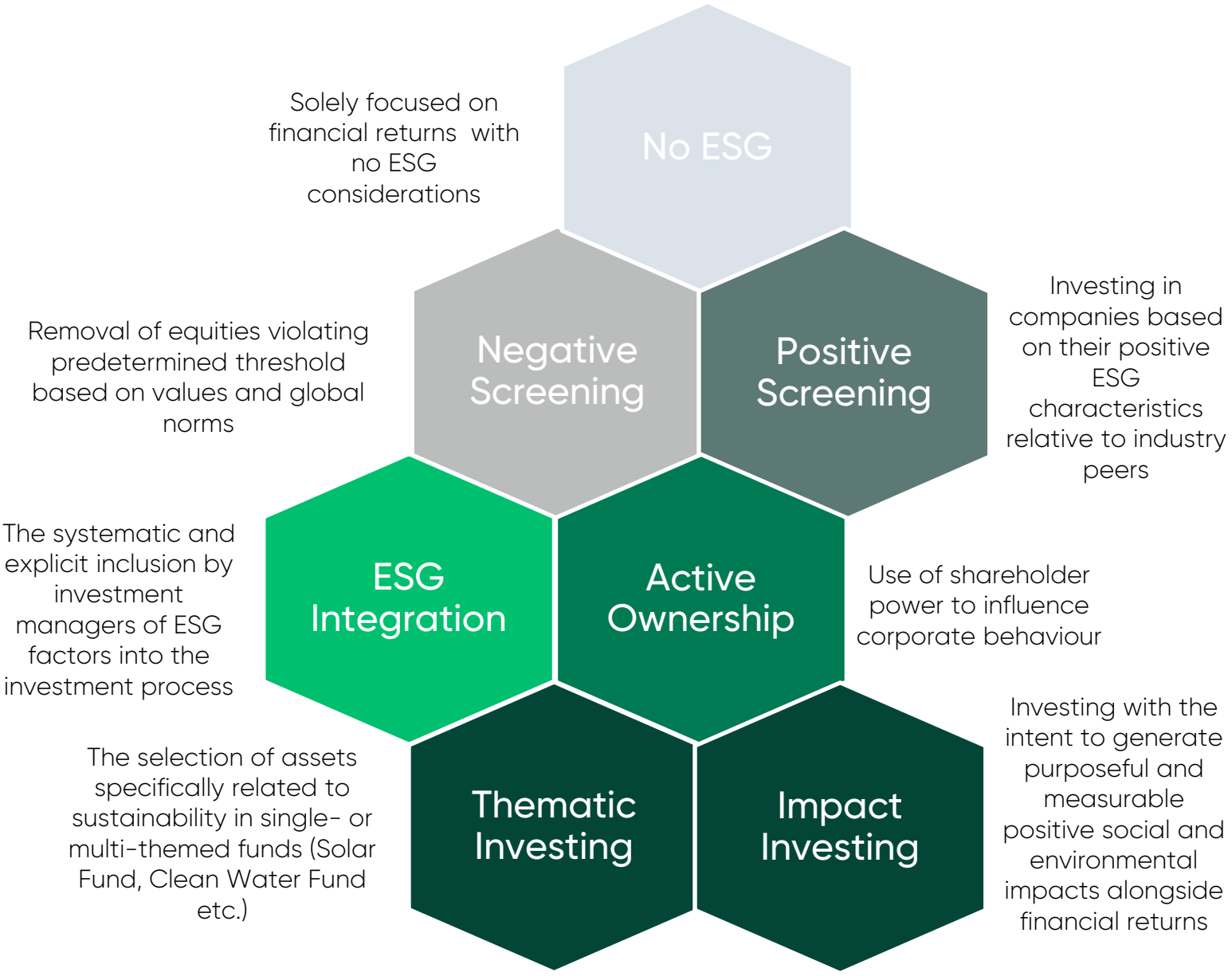


Source: MSCI ESG Research, Factset Portfolio Analysis as of 05/31/2020.

APPENDIX

DEFINING ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG)

ESG investing encompasses one or multiple of the following approaches:



ESG COMPONENTS

Top-Down ESG Considerations

Pillar	Environmental			Social			Governance		
Portfolio Driver	Economic	Political	Sentiment	Economic	Political	Sentiment	Economic	Political	Sentiment
Top Down Issue	Economy Coal Reliance	Environ-mental legislation	Media on Climate Issue	Infrastructure Growth	Human Rights	Disease Epidemics	Pro-Growth Reforms	Institutional Corruption	Anti-Corruption Crackdown
	Natural Resource Exposure	International Climate Agreements	Climate Change Fears	Wages and Labour Cost	Immigration Policies	Divestment Movements	Capital Market Regulations	Rise of Extreme Parties	Government Stability Perception
	Energy Exports/ imports	Renewable Energy Opportunities	Natural Disaster	Demographic shifts	Access to Fair Elections	Racial Tension	Private Property Rights	Promotion of drug Innovation	Political Scandals
	Resource Scarcity	Carbon Emission Programs	Sustainability Themed Fund Net Flows	Credit Penetration	Gender Rights	Healthier Lifestyle Shifts	Banking System Penetration	Government Stewardship	
	Tech Innovation	Pollution Prevention	Healthier Lifestyle Shifts	Access to Health Care and Education	Crime Rates		Embargoes and Tariffs	Shareholder Friendly Legislation	
	Urbanisation	Transportation		Inequality				Government Market Interference	
				Labour Strikes					

DISCLOSURES

For Institutional Investors Only

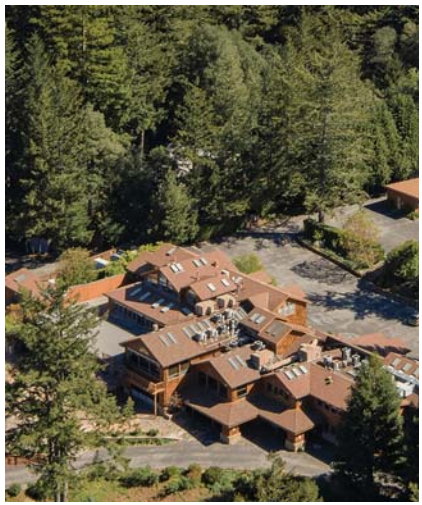
Investing in financial markets involves the risk of loss and there is no guarantee that all or any capital invested will be repaid. Past performance neither guarantees nor reliably indicates future performance. Other methods may produce different results, and the results for individual portfolios and for different periods may vary depending on market conditions and the composition of the portfolio. The value of investments and the income from them will fluctuate with world financial markets and international currency exchange rates.

The information in this document constitutes the general views of Fisher Investments and should not be regarded as personalized investment advice or a reflection of the performance of Fisher Investments or its clients. We provide our general comments to you based on information we believe to be reliable. There can be no assurances that we will continue to hold this view; and we may change our views at any time based on new information, analysis or reconsideration. Some of the information we have produced for you may have been obtained from a third party source that is not affiliated with Fisher Investments. Fisher Investments requests that this information be used for your confidential and professional use. Data is month end and USD unless stated otherwise.

Fisher Investments
Fisher Asset Management, LLC, doing business as Fisher Investments (FI), is a leading independent investment adviser registered with US Securities and Exchange Commission (US SEC). As of June 30 2020, FI and its subsidiaries managed over $122 billion.

Fisher Investments
Camas

Fisher Investments
San Mateo



Fisher Investments
Woodside

Fisher Investments
Plano

Fisher Investments
Europe

Fisher Investments
DIFC

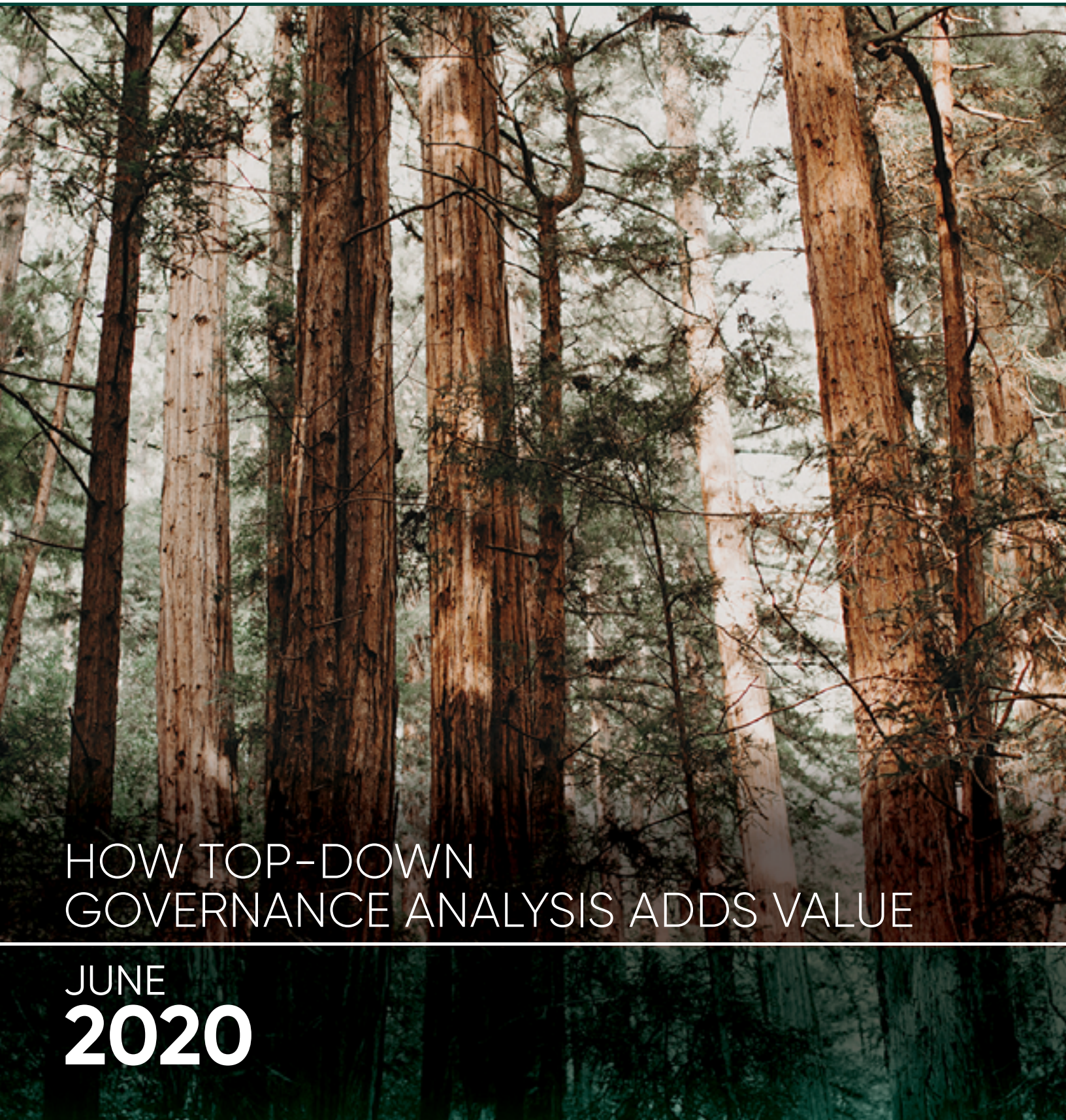
Fisher Investments
Australasia

Fisher Investments
Japan

Fisher Investments
Ireland

Photographs shown above: Four offices of FI are located in Washington, California, and Texas, USA. The London, UK office is the headquarters of Fisher Investments Europe, Limited, FI's wholly owned subsidiary in England. The Dubai International Financial Centre office is a branch office of FI. Fisher Investments Australasia Pty Ltd (FIA) is FI's wholly-owned subsidiary based in Sydney, Australia. Fisher Investments Japan (FIJ) is FI's wholly-owned subsidiary based in Tokyo, Japan. Fisher Investments Ireland Limited (FII) is FI's wholly-owned subsidiary located in Dublin, Ireland.

FISHER INVESTMENTS EUROPE™



HOW TOP-DOWN GOVERNANCE ANALYSIS ADDS VALUE

JUNE
2020

HOW TOP-DOWN GOVERNANCE ANALYSIS ADDS VALUE

TABLE OF CONTENTS

TOP-DOWN VERSUS BOTTOM-UP

Overwhelmingly, investment professionals today utilise an investment process generally known as "bottom-up" investing. A typical bottom-up investor emphasises equity selection and researches an assortment of companies, attempting to pick those with the greatest likelihood of outperforming the market based on individual merits. The investor mixes the selected securities together to form a portfolio; however, country and sector exposures are often simply residuals of security selection.

"Top-down" investing reverses this process. A top-down investor first analyses such macro factors as economics, politics and sentiment to forecast which investment categories are most likely to outperform the market. Only then does a top-down investor begin looking at individual securities. Top-down investing is inevitably more concerned with a portfolio's exposure to broad investment categories than any individual security. Thus, top-down is an inherently dynamic mode of investing because investment strategies are based upon the prevailing market and economic environments (which change often).

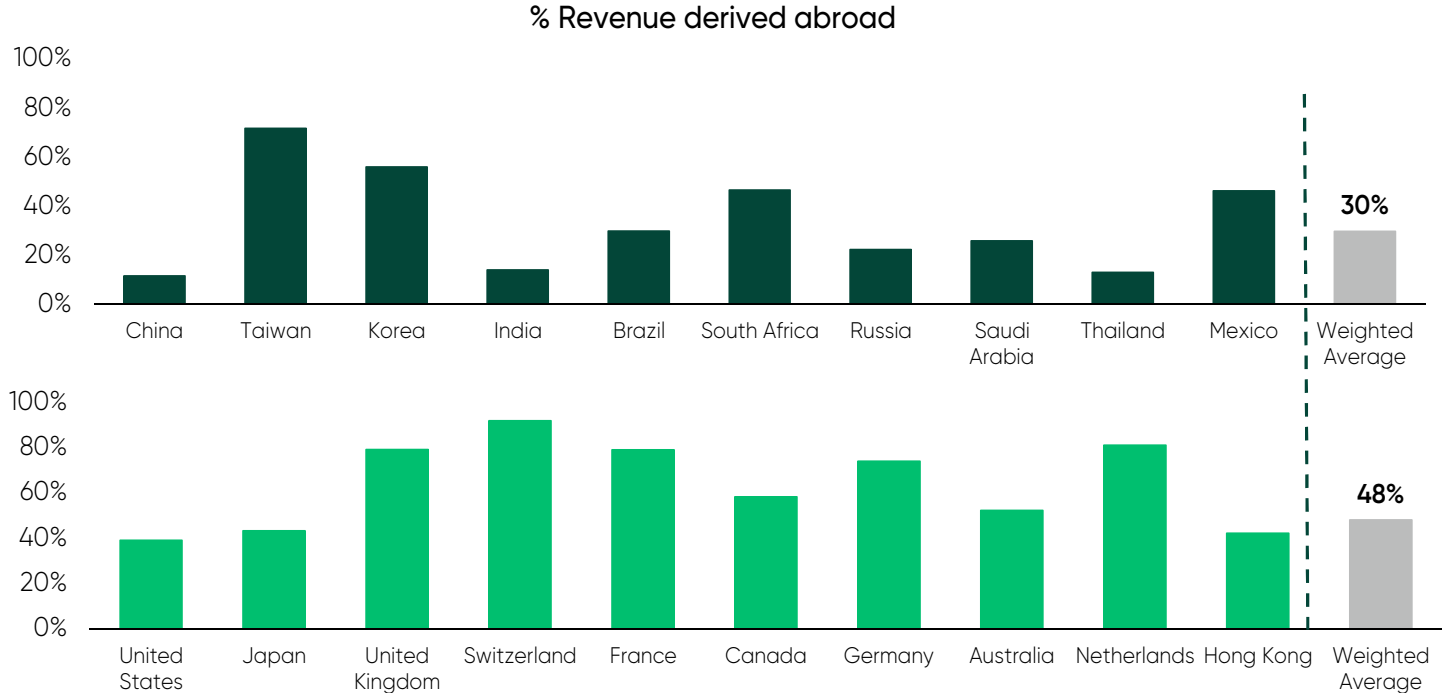
TOP-DOWN IN AN ESG FRAMEWORK

Top-down research is highly complementary to ESG analysis. In a world of global supply chains and multinational corporations, implementing ESG considerations in the investment approach requires global insights. Over 48% of revenue of MSCI World constituents and 30% of revenue of MSCI EM constituents is derived from abroad (Exhibit 1).

Top-down investment management is all about considering factors (risks and opportunities) outside the scope of traditional financial statement analysis. This is also the main goal of ESG integration. For example, understanding the political/legislative/corporate norms of a country can help avoid environmental or regulatory risks securities in any given country may be exposed to. To summarise: Good top-down decisions already demand ESG considerations.

While ESG factors are of significant importance, in this paper, we will focus exclusively on the added value of analyzing governance considerations through a top-down lens.

EXHIBIT 1: REVENUE DERIVED FROM ABROAD BY COUNTRY



Source: FactSet as of 18/05/2020.

THE PITFALLS OF QUANTITATIVE GOVERNANCE SCREENING

One common approach in 'best in class' ESG strategies is for managers to quantitatively screen out low-rated companies by total score or by individual pillar scores (E,S,G). While applying a common risk framework (ESG score screening) may be appropriate for environmental and social considerations, it is inappropriate for governance review.

NO SHORTCUTS TO SECURITY-LEVEL GOVERNANCE ANALYSIS

Broad common externalities (e.g. carbon regulation, consumer preferences) primarily drive environmental and social risk. A common risk framework (ESG score screening) thus may reasonably help managers assess security-level environmental/social risks. However, while key governance-related externalities need to be considered (e.g. government influence, country reforms), internalities unique to an individual company's structure, management team and business/industry primarily drive security-level governance risks. In analyzing governance risks, therefore, a common risk framework like ESG score screening may not sufficiently help managers.

CORPORATE GOVERNANCE ANALYSIS INTEGRATION

Instead of applying a one-size-fits-all common framework for governance analysis, Fisher Investments evaluates governance factors at multiple stages throughout the investment process. It does this at both the top-down level (with Capital Markets Analysts and the Investment Policy Committee developing country, sector and thematic preferences) and at the bottom-up/security-level (with Securities Analysts conducting fundamental analysis and engagements.)

TOP-DOWN GOVERNANCE PROCESS

In a top-down investment process, sector, country, style and thematic decisions contribute materially to relative performance. As such, identifying factors likely to contribute positively or negatively to country/sector performance requires significant effort. At the country level, for example, governance analysis primarily includes the degree to which a country's political/regulatory structure and trends (e.g. reforms) may influence business results or investor preference for that country relative to alternatives. Top-down governance factors considered when determining country and sector/industry allocation include governmental influence on public companies, regulation, social policy, and market reforms impacting private property, labour or corruption.

BOTTOM-UP GOVERNANCE PROCESS

FI's Securities Analysts perform fundamental research on prospective investments to identify securities with strategic attributes most consistent with the firm's top-down views and with competitive advantages relative to their defined peer group. Governance analysis at the security level involves assessing a company's risks (e.g. ownership concentration, share class structure, proxy fights) and its ability to mitigate such risks (e.g. through board structure, independent auditor activities or managerial quality assessment). When security-level concerns present an inordinate risk to a company's operational or financial performance, or the firm believes they present undue headline risk to share price performance, FI would choose not to invest in that company.

Engagement and proxy voting are also important parts of FI's governance analysis. FI engages with companies as part of its fundamental analysis and to clarify or express concerns over potential governance issues. FI also interacts with company management on proxy voting issues, particularly when our proxy voting services provider, Institutional Shareholder Services, Inc. (ISS), disagrees with company management. FI's broader Engagement Policy is available upon request.

The importance of independent and detailed governance analysis cannot be overstated. As discussed, there are no shortcuts to governance risk assessment, as internalities unique to an individual company's structure, management team and business/industry primarily drive security-level risks. Using a quantitative screening approach relying on third-party (e.g. MSCI ESG Research, Sustainalytics, ISS, etc.) could lead to individual missed opportunities or a restriction of large swaths of the investment universe, such as Chinese ADRs using the Variable Interest Entity (VIE) structure.

TOP-DOWN GOVERNANCE ANALYSIS EXAMPLES

Some of the most important decisions for top-down managers occur on the country and sector level. Top-down governance analysis can help isolate countries and sectors that are poised to underperform— pulled down by negative ESG characteristics. Following are several examples describing how country-level corporate governance can be one of several factors potentially impacting performance.

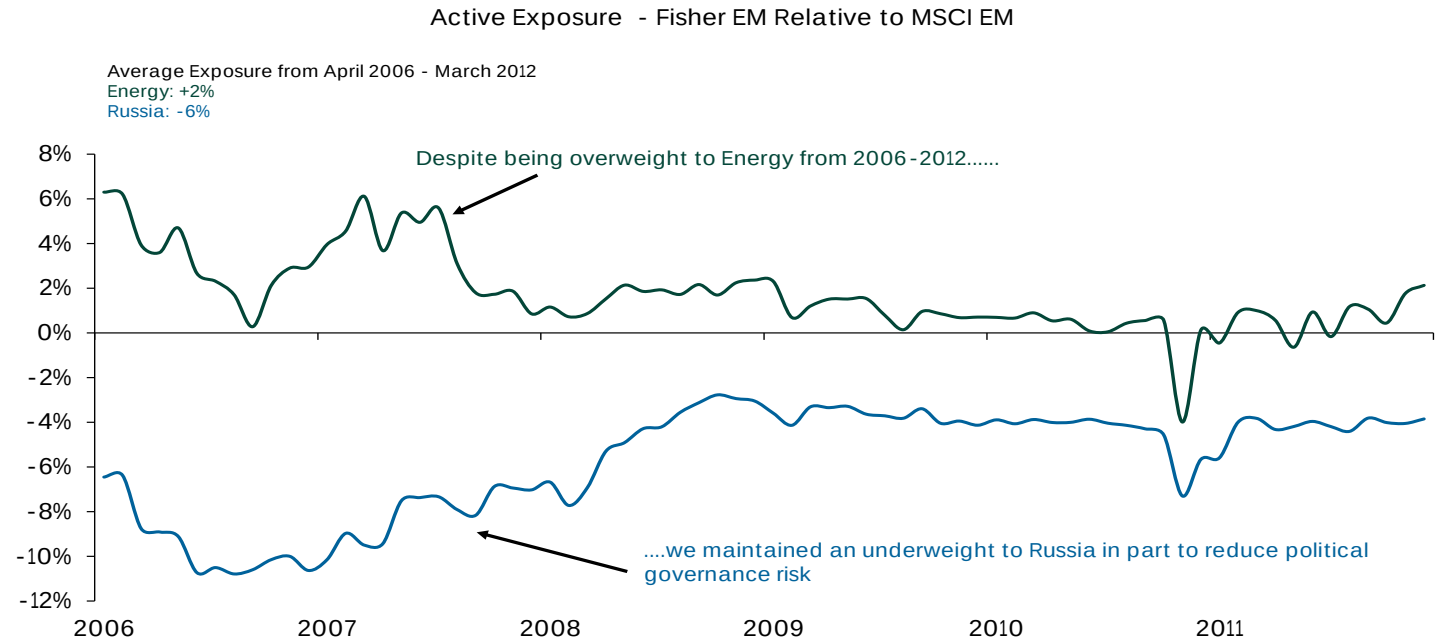
RUSSIAN CORRUPTION

Country-level corporate governance is one of many factors that help us determine the gap between reality and expectations and expected risks in the portfolio. We hold no bias in favour or against any specific country, but we consider top-down governance considerations particularly important in Emerging Market countries like Russia—where there are less-rigorous mechanisms to prevent public and private sector corruption.

Russia has a history of nationalisations that raise concerns over property rights, such as the one conducted on energy company Yukos. The CEO was arrested, the company was forcibly broken up and pushed into bankruptcy for unpaid taxes. International courts ruled that the government abused their power to illegally seize the company's assets.

Although there was a high concentration of Energy companies in Russia from 2006 – 2012 and we remained overweight to the sector in our EM strategies, high-level ESG considerations led us to seek Energy exposure in other areas with significantly less political risk (Exhibit 2).

EXHIBIT 2: ACTIVE EXPOSURE TO ENERGY AND RUSSIA OVER TIME



Source: Fisher Investments Emerging Markets active weights to Energy and Russia relative to MSCI Emerging Markets. Barra Portfolio Manager from 01/04/2006-31/03/2012.

SOUTH AFRICAN REFORMS

Another country-level governance analysis example involves South Africa. This analysis heavily influenced the Investment Policy Committee's (IPC's) decision-making within Fisher Investments' Institutional Emerging Markets Equity Fund. Specifically, it led to the IPC's decision to underweight South Africa vs. the MSCI Emerging Markets Index.

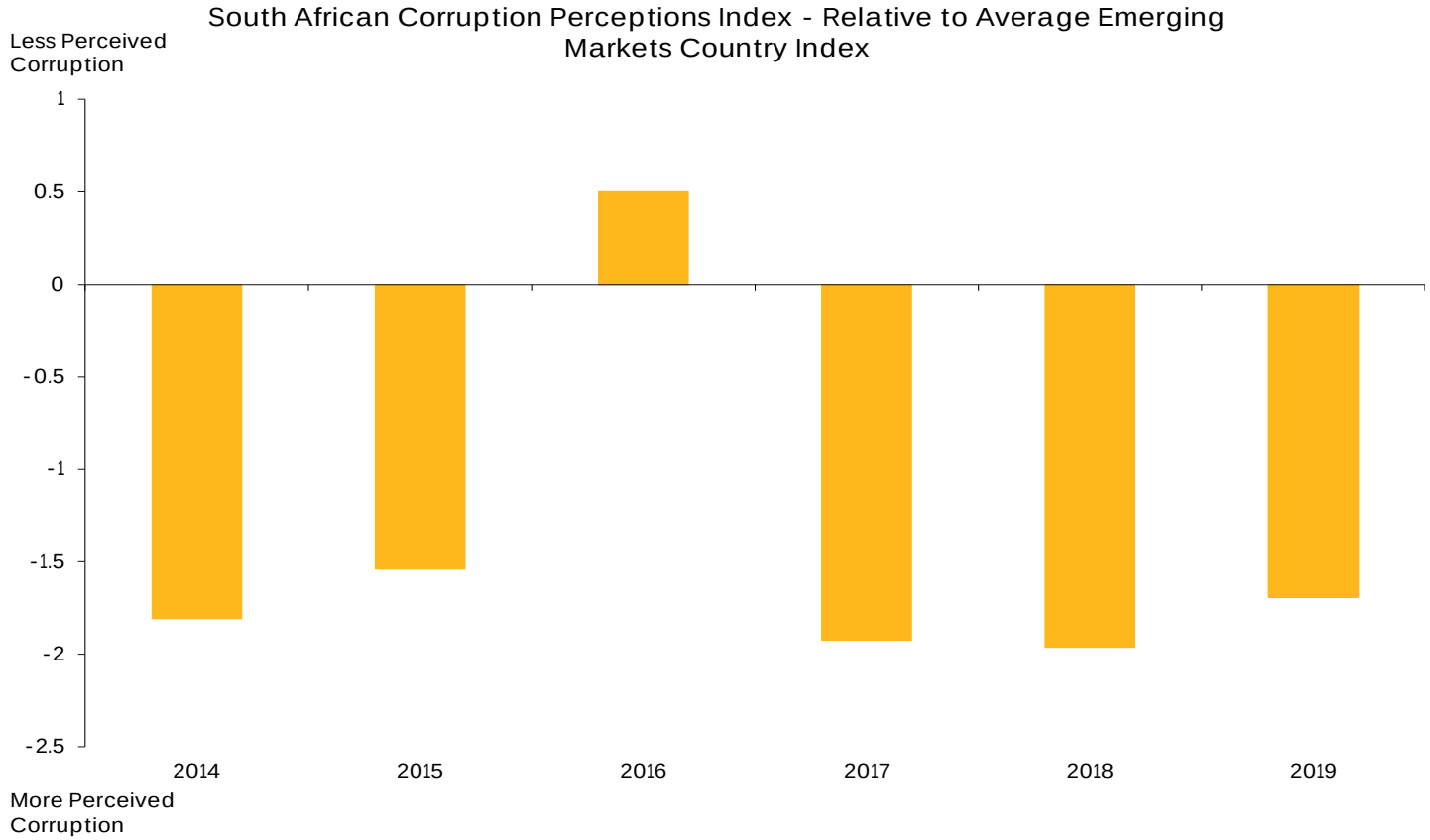
Proposed Land Reform: South African President Cyril Ramaphosa's government has been progressing reform that would expropriate land without compensating current owners. While the goal of this reform, much like prior Black Economic Empowerment programmes, is to improve income and wealth disparity, it does weaken the strong property ownership rights that separate South Africa from other African nations and increases the risk of discouraging foreign direct investment. Additionally, Black Economic Empowerment programmes have been criticised for benefitting only a small portion of the Black population and widening the wealth gap within that demographic. This has a negative impact on the Financial, Real Estate and Materials sectors.

Government Corruption and State Capture: Former President Jacob Zuma is currently facing prosecution for arms deals he facilitated as deputy president and could face additional bribery and state capture charges tied to the Gupta family scandal. While Zuma is out of office, his African National Congress remains in power, and some of his peers and state-owned enterprises could potentially be involved in the scandals.

This has a negative impact on the Utilities and Financial sectors. Overall, perceived corruption has not been improving in recent years and remains worse than the average of MSCI EM countries, as measured by Transparency International (Exhibit 3).

Further, South African government officials have recently floated proposals to force banks to lend to coal-fired utilities and invest in new coal-fired power plants against their will. This has contributed to underperformance for the banking industry.

EXHIBIT 3: SOUTH AFRICAN CORRUPTION NOT IMPROVING



Source: Transparency International as of 31/12/2019.

BRAZILIAN CORRUPTION

Corporate corruption concerns are most often focused on scandals (e.g. Operation Car Wash in Brazil, South Korean President Park Geun-hye's impeachment) that have caused passive ESG investors to persistently underweight entire countries. Such simple risk-avoidance strategies lead investors to miss out on alpha opportunities that top-down macro managers such as FI don't overlook.

A strategy that simply screens out lower-rated companies could likely exclude an entire country or create a chronic underweight position to areas like Brazil, one of the nations with the worst Bribery and Corruption scores (per MSCI ESG Research). As a top-down manager, Fisher Investments acknowledges the risks in Brazil, but also balances them with the alpha opportunity depressed equity sentiment and fundamental economic tailwinds bring.

Furthermore, by simplistically avoiding Brazil due to fears of corporate corruption, investors also overlook the positive impact produced through the Brazilian banking system. Brazilian banks have a history of lending to low and middle class individuals, helping drive increased credit penetration for the country.

Companies such as Banco Bradesco have used unique approaches, such as riverboats, in order to bring banking to underserved regions of the country.

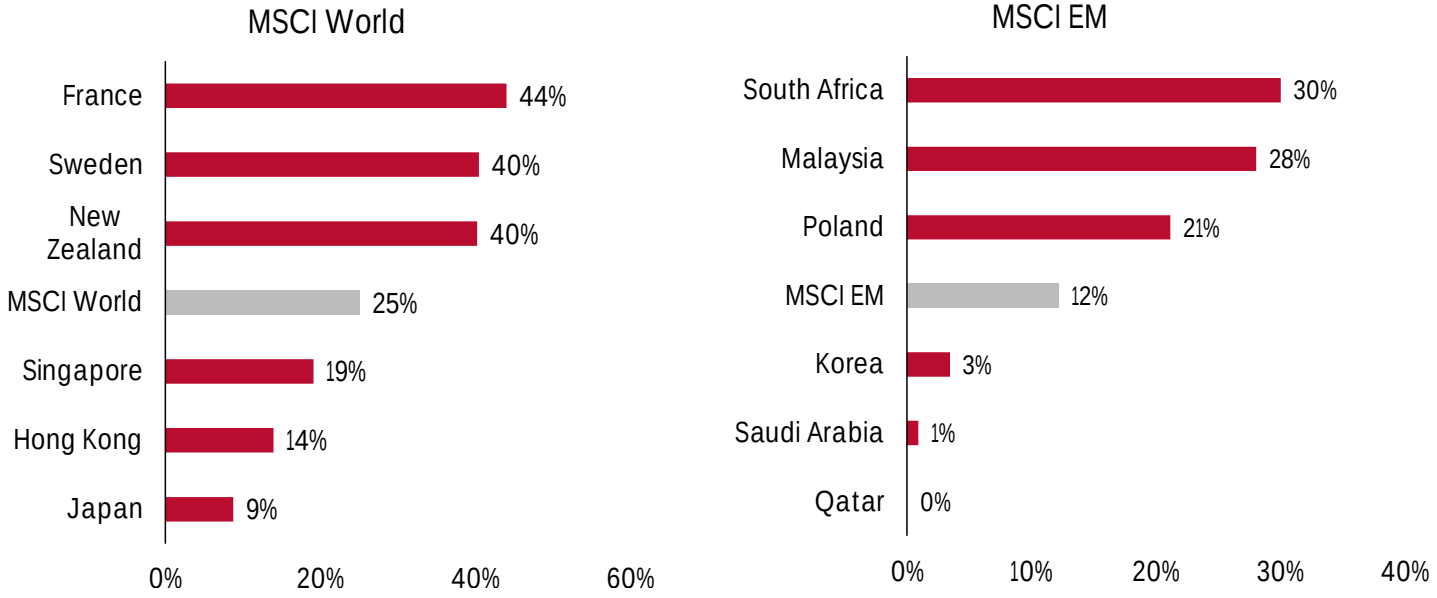
Such investments support UN Sustainable Development Goal #1—"No Poverty". One way for investors to reduce poverty is through investment in banks that provide credit to underserved communities. Investing in Brazilian banks—despite corruption fears—can help achieve that aim.

CORPORATE GOVERNANCE IN JAPAN

Japan currently has the worst corporate governance score (as defined by MSCI ESG Research) of all countries in the MSCI World index. Part of this is due to a lack of independent board members. Often times there are close relationships between big Japanese banks and large corporations. As a result, corporate board members were and still are often insiders coming from a main bank, the corporate group and the corporation itself. Additionally, the country ranks last of all developed countries as it relates to board diversity, with women making up only 9% of the boards of Japanese public companies (Exhibit 4).

However, the Abe administration aims to improve corporate governance and raise ROEs through the creation of equity indices comprised of strong corporate governance firms—aimed to attract government and private capital. Further, the $1.5T government pension fund (GPIF) is allocating funds to encourage better governance standards, female labour force participation and carbon reduction. Many medium and large size Japanese firms are modifying organisational practices as a result of the GPIF emphasis.

EXHIBIT 4: BOARD DIVERSITY (% FEMALE)



Source: MSCI ESG Research, as of 31/12/2019.

HISTORY OF CORPORATE STEWARDSHIP AT FISHER INVESTMENTS

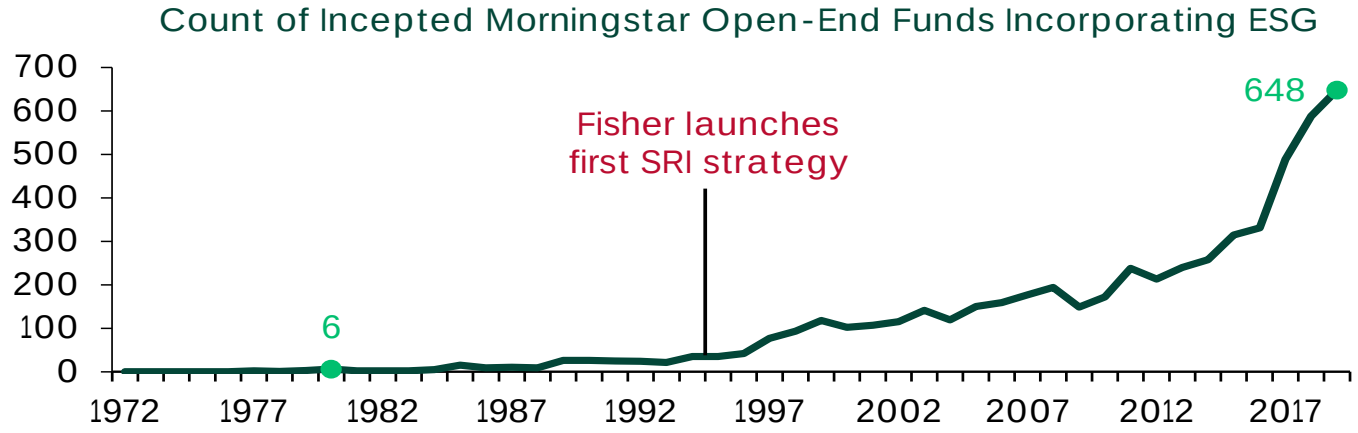
Demand for ESG oriented strategies has grown consistently over the last 50 years, illustrating the importance and value investors put behind considering ESG factors (Exhibit 5). While other managers have rushed to incorporate ESG into their investment strategies, FI has decades of experience actively managing portfolios considering government corruption, environmental legislation, labour developments, human rights and other macro ESG considerations. Each year our ESG program continues to expand and develop, and we are excited to continue building out our ESG capabilities.

CURRENT ESG ORGANISATION MEMBERSHIPS

We are a United Nations Principal for Responsible Investment Signatory, support the U.K. Stewardship Code and are a signatory of the Japanese Stewardship Code. Further, FI is a member of the following organisations.

- **UN Global Compact Participant:** The UN Global Compact is a voluntary initiative based on company commitments to implement universal sustainability principles and to undertake partnerships in support of UN goals.
- **CDP Signatory:** CDP runs the global environmental disclosure system. Each year CDP supports thousands of companies, cities, states and regions to measure and manage their risks and opportunities on climate change, water security and deforestation.
- **Climate Action 100 Signatory:** Climate Action 100 is an investor initiative to ensure the world's largest corporate greenhouse gas emitters take action on climate change. The companies include 100 'systemically important emitters', accounting for two-thirds of annual global industrial emissions, in addition to 60 companies with high opportunity to promote clean energy.
- **Task Force on Climate-related Financial Disclosure (TCFD) Supporter:** The FSB TCFD creates voluntary, consistent climate-related financial risk disclosures for firms to provide for investors, lenders, insurers, and other stakeholders.
- **Conservation International Supporter and Emerald Circle Member:** Conservation International works to highlight the critical opportunities that nature provides to humanity. They work to protect more than 2.3 million square miles of land and sea across 70+ countries.

EXHIBIT 5: EVOLUTION OF ESG DEMAND



Source: Morningstar Direct. As of December 2019. Based on 5,537 observations. Fisher's SRI strategy was US Small Cap Capabilities ESG and was seeded February 1995.

DISCLOSURES

Fisher Investments Europe Limited (FIE) is authorised and regulated by the Financial Conduct Authority. It is registered in England, Company Number 3850593. FIE is wholly-owned by Fisher Asset Management, LLC, trading as Fisher Investments (FI), which is wholly-owned by Fisher Investments, Inc.

Fisher Investments (FI) is an investment adviser registered with the securities and Exchange Commission. As of 31 December 2019, FI managed over $120 billion, including assets sub-managed for its wholly-owned subsidiaries. FI and its subsidiaries maintain four principal business units – Fisher Investments Institutional Group (FIIG), Fisher Investments Private Client Group (FIPCG), Fisher Investments International (FII), and Fisher Investments 401(k) Solutions Group (401(k) Solutions). These groups serve a global client base of diverse investors including corporations, public and multi-employer pension funds, foundations and endowments, insurance companies, healthcare organisations, governments and high-net-worth individuals. FI's Investment Policy Committee (IPC) is responsible for investment decisions for all investment strategies.

For purposes of defining "years with Fisher Investments," FI was established as a sole proprietorship in 1979, incorporated in 1986, registered with the US SEC in 1987, replacing the prior registration of the sole proprietorship, and succeeded its investment adviser registration to a limited liability company in 2005. "Years with Fisher Investments" is calculated using the date on which FI was established as a sole proprietorship through 31 December 2019.

FI is wholly owned by Fisher Investments, Inc. Since Inception, Fisher Investments, Inc. has been 100% Fisher-family and employee owned, currently Fisher Investments Inc. beneficially owns 100% of Fisher investments (FI), as listed in Schedule A to FI's form ADV Part 1. Ken and Sherrilyn Fisher, as co-trustees of their family trust, beneficially own more than 75% of Fisher Investments, Inc., as noted in Schedule B to FI's Form ADV Part 1.

FIE delegates portfolio management to FI. FI's Investment Policy Committee is responsible for all strategic investment decisions. FIE's Investment Oversight Committee (IOC) is responsible for overseeing FI's management of portfolios that have been delegated to FI. Matters arising pursuant to FI's portfolio management policies are elevated to the IOC.

The foregoing information has been approved by Fisher Investments Europe.

Investing in financial markets involves the risk of loss and there is no guarantee that all or any capital invested will be repaid. Past performance neither guarantees nor reliably indicates future performance.

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FISHER INVESTMENTS™

INSTITUTIONAL GROUP

PRESENTATION AGENDA

- PERFORMANCE

Presented by Seth Groener, Senior Research Analyst, Portfolio Management Group

- ENGAGEMENT

Presented by Anita Green, Vice President of Investor Responsibility & Engagement

- TOP-DOWN

Presented by Zoe Abbott Boyd, ESG Program Manager

SETH GROENER - SENIOR RESEARCH ANALYST, PORTFOLIO MANAGEMENT GROUP

- Don't read too much into passive ESG performance in 2020 COVID-19 downturn

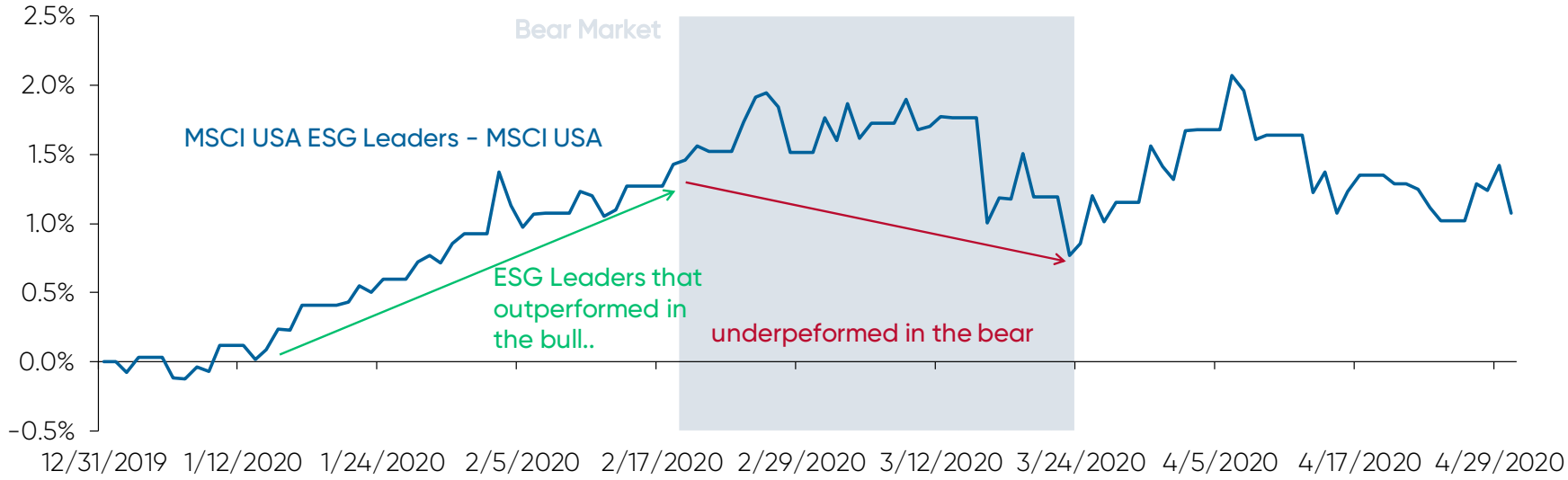
Seth Groener – Senior Research Analyst, Portfolio Management Group

Seth generates fundamental and quantitative macroeconomic research for use in the investment process. Seth is also an ESG specialist on the Capital Markets Research team and a member of the firm's Responsible Investments Committee. He impacts the application of ESG considerations in several different areas of our process: investment research, guideline implementation, training and compliance.

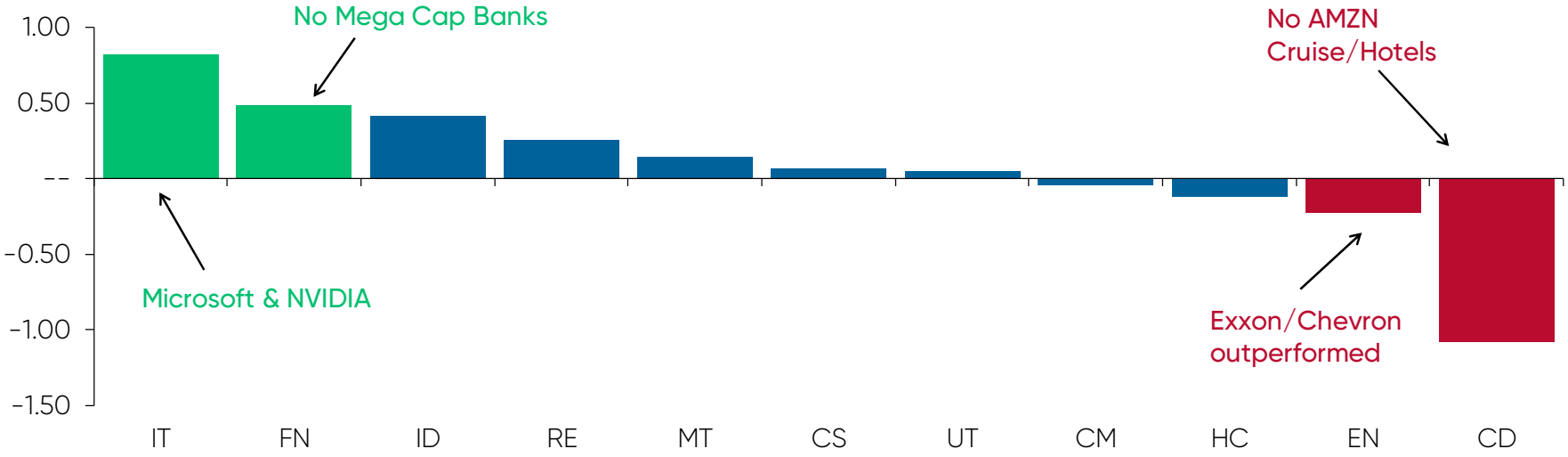
WHEN A PASSIVE ESG INDEX OUTPERFORMS INVESTORS SHOULD BE SURE TO ASK WHY

Much is made of passive ESG indexes outperforming YTD, however decomposing returns suggests outperformance may have little to do with ESG performance.

Performance of high scoring ESG stocks in the US has been inconsistent



Security attribution suggests that YTD performance has more to do with the global pandemic than ESG scores

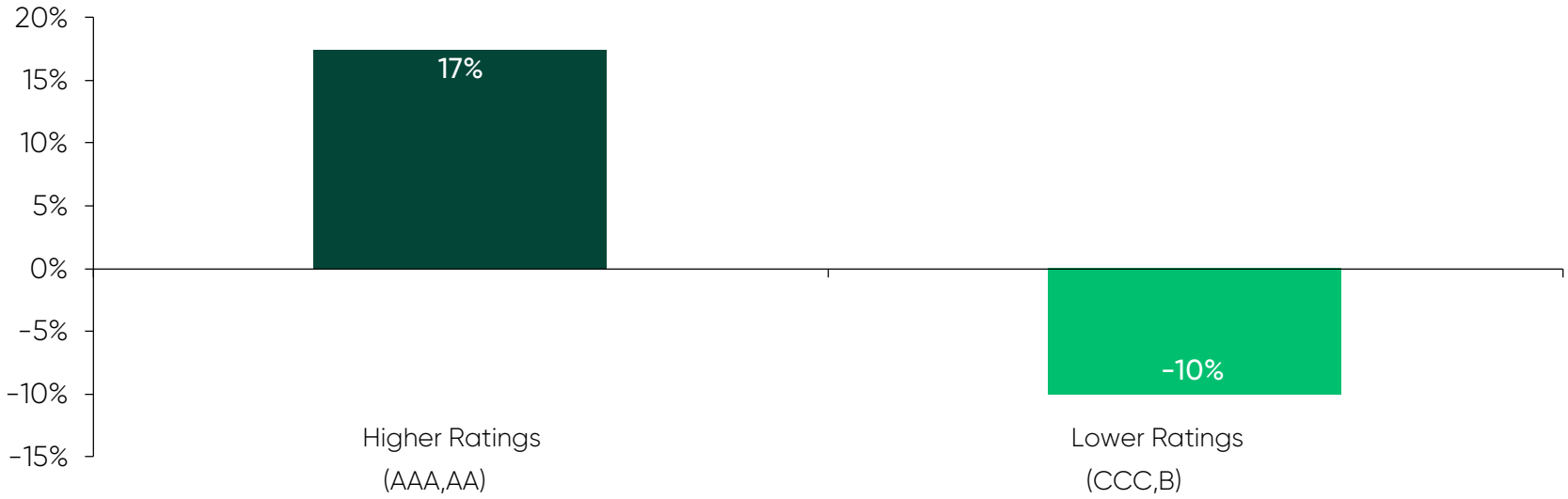


Top Chart: Fisher Investments/FactSet: Price performance Xtrackers MSCI USA ESG Leaders Equity ETF vs MSCI USA Index 12/31/2019-4/30/2020. Bottom Chart: Fisher Investments/FactSet: Total attribution effect (security + sector) of Xtrackers MSCI USA ESG Leaders Equity ETF vs MSCI USA Index 12/31/2019-4/30/2020.

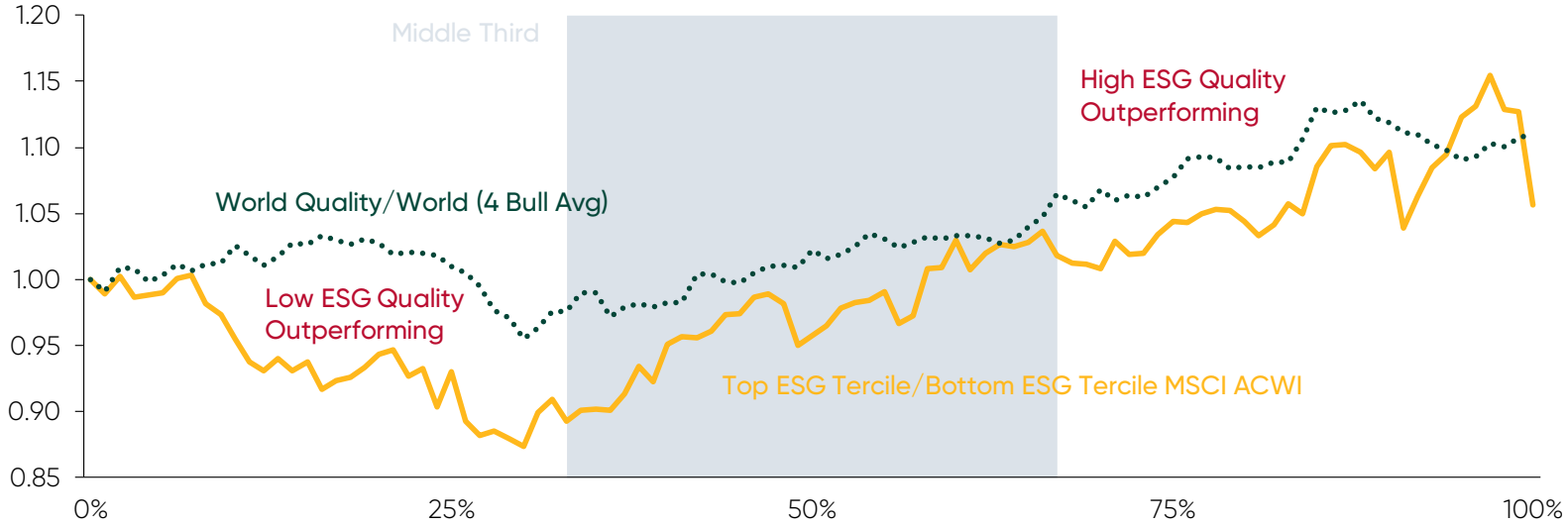
ESG RISK SCORES OFTEN CORRELATE TO STANDARD INVESTMENT STYLE FACTORS

ESG performance may be a residual of style trends as high rated stocks outperform with growth or quality.

Percentage Weight Differences by Rating Group: MSCI ACWI Large Cap Growth - MSCI ACWI Small-Mid Cap Value



High scoring ESG stocks tend to outperform low scoring stocks when high quality outperforms low quality



Top chart: Fisher Investments, FactSet, MSCI ESG Research. Weight to ratings groups as of 3/31/2020.
Bottom chart Source: ClariFI and MSCI ESG Research; ESG scores are MSCI's industry-adjusted ESG scores; 7/8/2016 marks the end of the middle third; returns are cumulative from 3/9/2009 to 3/31/2020; FactSet MSCI World Quality vs MSCI World (last 4 bull market cycles).

ANITA GREEN – VICE PRESIDENT OF INVESTOR RESPONSIBILITY & ENGAGEMENT

- What are the evolving engagement themes of the global health crisis?

Anita Green –
Vice President of Investor Responsibility & Engagement

Anita leads the strategic development and implementation of the corporate engagement program. Her team engages companies in dialogue on relevant environmental, social and governance issues, often seeking additional disclosure to investors or requesting companies take steps to strengthen their performance. Anita has more than 20 years' experience in corporate engagement and is a member of the firm's Responsible Investment Committee.

ENGAGEMENT THEME: PARIS CLIMATE AGREEMENT

Can temporary global emissions reductions hasten the transition to a low-carbon economy?

- At the 2015 United Nations Framework Convention on Climate Change, 196 countries agreed to take steps to limit global warming to no more than 2 °C, with an ambition of achieving 1.5°C. The countries also agreed to revisit and enhance progress every 5 years.

- At the 2020 Convention, parties were expected to communicate new or updated commitments. Due to COVID-19, it is postponed until next year.

United Nations Framework Convention on Climate Change

ESG: HIGHLIGHTING THE "S" AND "G"

- SOCIAL
  - Income inequality
  - Human capital management

Job losses disproportionately affect low-income workers. Reducing wages and benefits without reducing financial obligations widens the income gap.

- GOVERNANCE
  - Resilience to external threats
  - Executive compensation

Investors are scrutinizing companies' preparedness for significant threats. This includes board oversight, operational liquidity and executive pay that aligns with performance.

FROM SHAREHOLDER TO STAKEHOLDER–REDEFINING THE PURPOSE OF A CORPORATION

- "Business Roundtable"- US Trade Association
  - August 2019 *Statement on the Purpose of a Corporation* moves away from shareholder primacy toward a stakeholder approach
- EU Shareholder Rights Directive II
  - States that decisions should be made for long-term company stability
- United Nations Sustainable Development Goals
  - Global challenges are interconnected, focuses on "leaving no one behind."

ZOE ABBOTT BOYD – INSTITUTIONAL ESG PROGRAM MANAGER

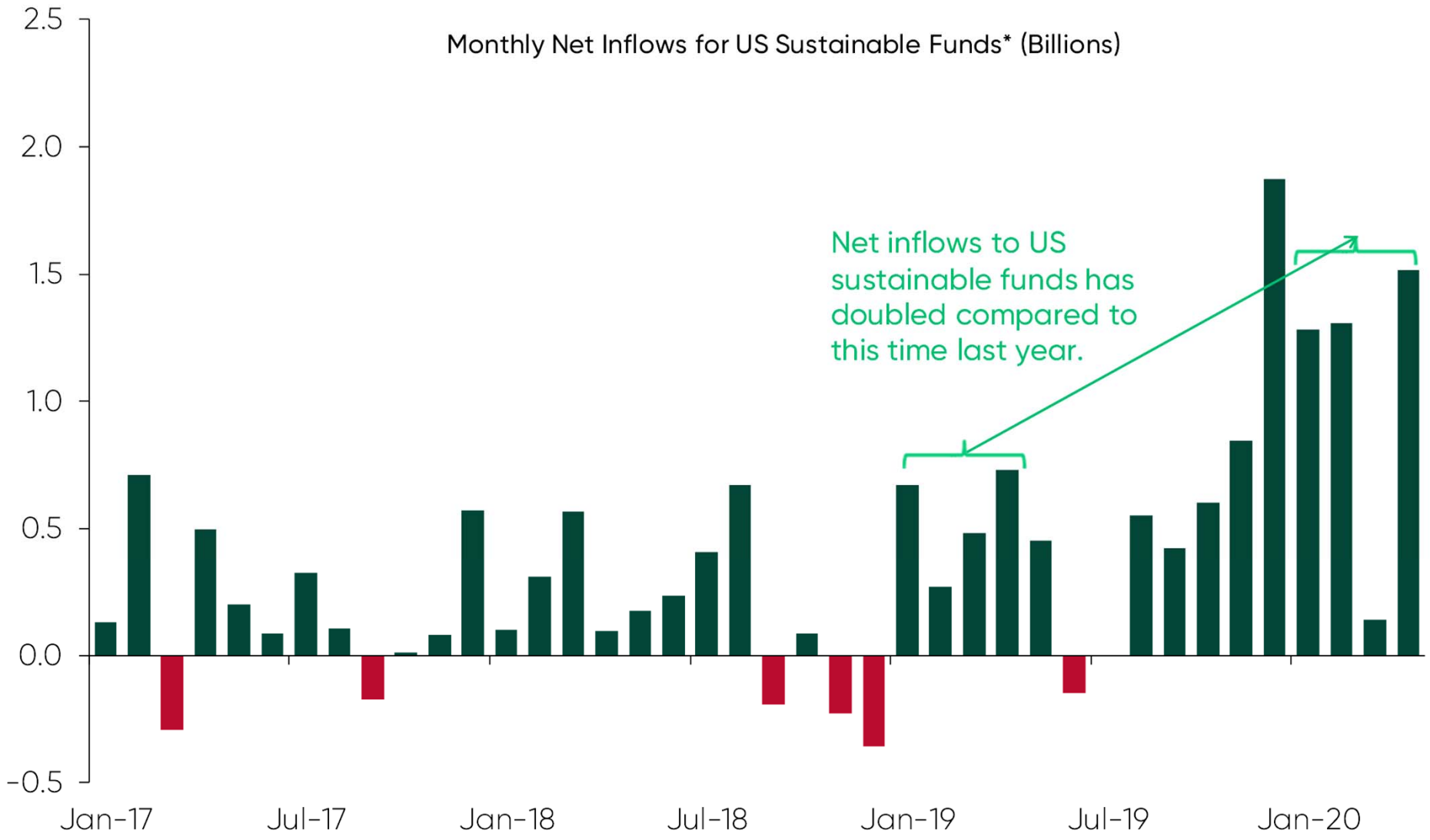
- Global Pandemic derailed the longest running bull market but has not slowed ESG demand

Zoe Abbott Boyd – Institutional ESG Program Manager

Zoe leads our ESG program and manages the 25 member Responsible Investment Committee. Additionally, Zoe is a member of the firms Diversity & Inclusion taskforce which works to make Fisher a leader in this space. In her previous role, she spearheaded the creation of the department's ESG reporting: UN Sustainable Development Goals in Impact Investing, Carbon Footprint and researched the limitations of ESG scores.

ESG DEMAND STRONG DESPITE BEAR MARKET

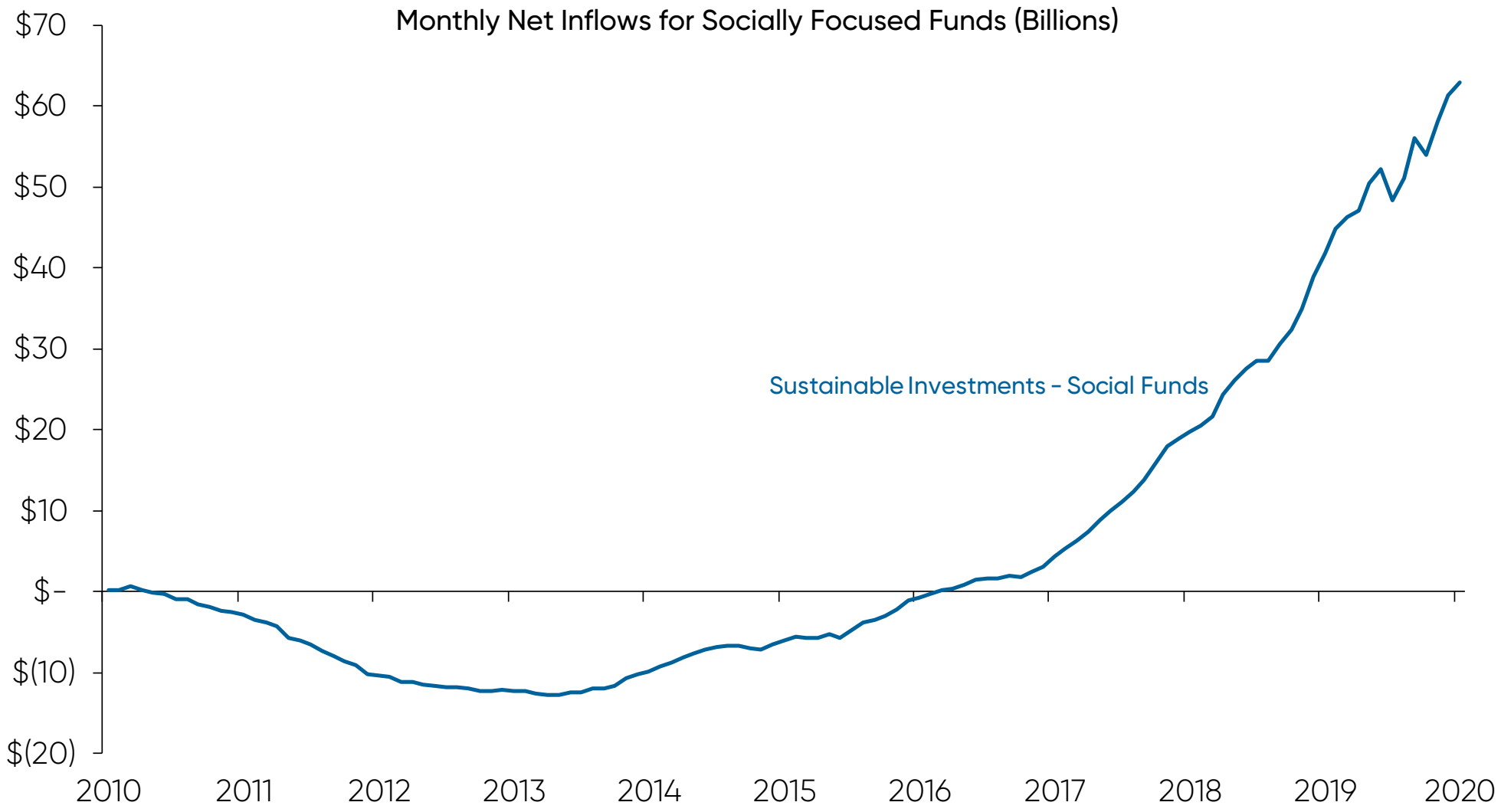
Compared to previous periods, US sustainable funds are enjoying record net inflows. YTD net inflows to US sustainable funds nearly doubled compared to the same period in 2019.



*Source: Morningstar Direct as of 04/30/2020. Shows net inflows aggregated from all fund share classes included in the following Morningstar Sustainable Investment criteria's, and available for sale in the United States. *Sustainable Investment Criteria's included: Community development, Environmental, ESG Incorporation, Gender & Diversity, General Environmental Sector, Low Carbon/Fossil Fuel Free, Other Impact Themes, Renewable Energy & Water-Focused. (312 funds total).*

SOCIALLY FOCUSED FUNDS LIKELY WILL SEE A BOOST IN DEMAND

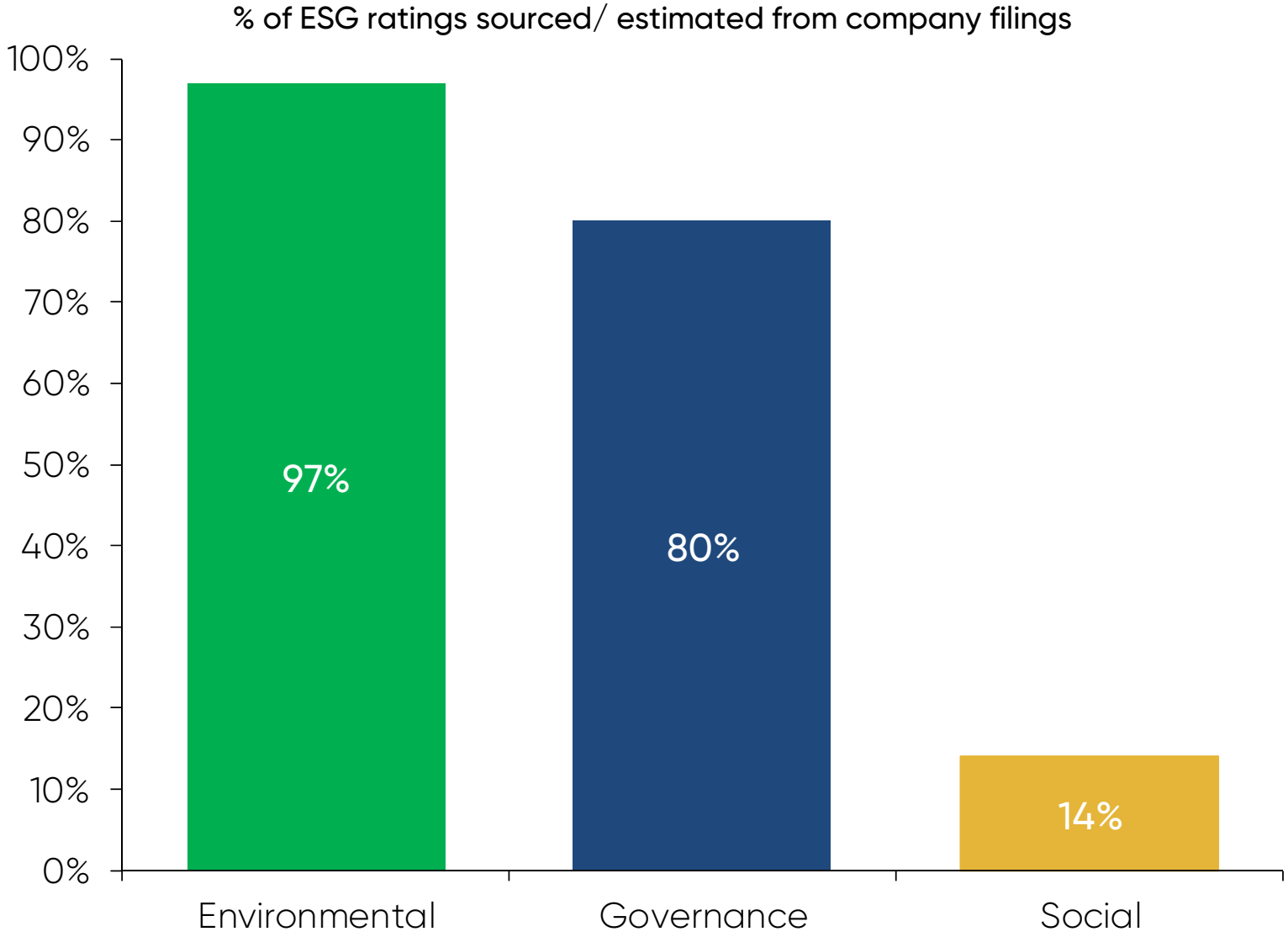
The public health crisis is bringing the social component of ESG to the forefront. Relative to this time last year Socially focused funds have grown 19%.



Source: Morningstar Direct, as of 05/22/2020. Shows cumulative net inflows for open-end and exchange traded funds in billions of USD, from 04/30/2010 to 04/30/2020. Social funds are based on the aggregate flows for the Community Development and Gender & Diversity Morningstar Sustainable Investment criteria's. Based on 2,373 active and passive products.

SOCIAL DATA IS LIMITED

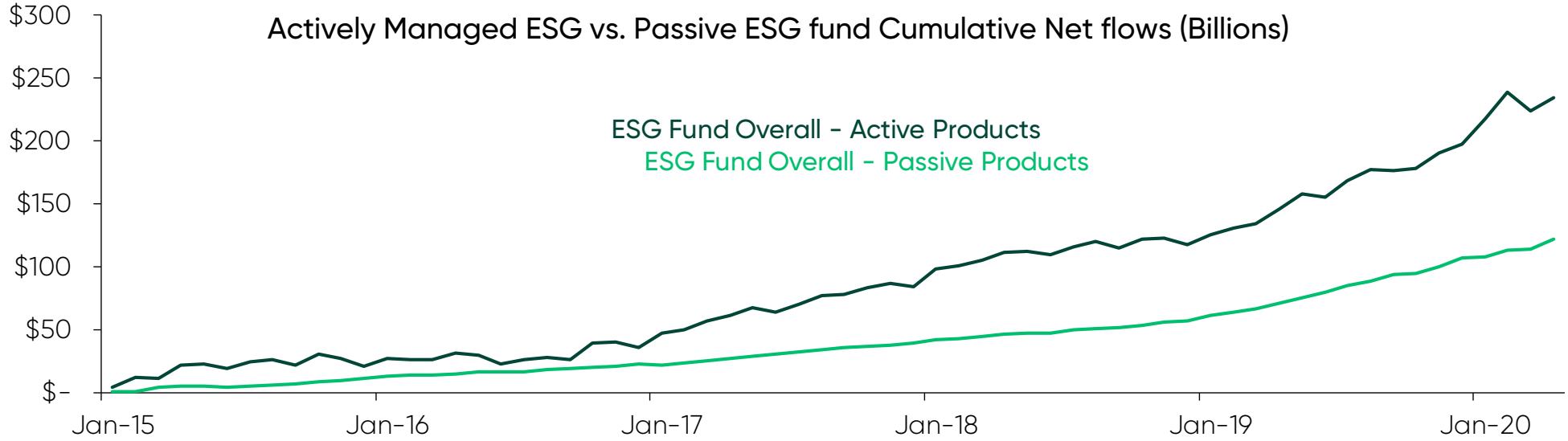
While E and G factors can mainly be understood through measurable quantitative factors, company social factors are often estimated. The vast majority of S scores attempt to assign materiality to internal factors—company policies, disclosures, number of trainings etc.—which can vary widely dependent on firm size and region standards for example, EM vs. DM.

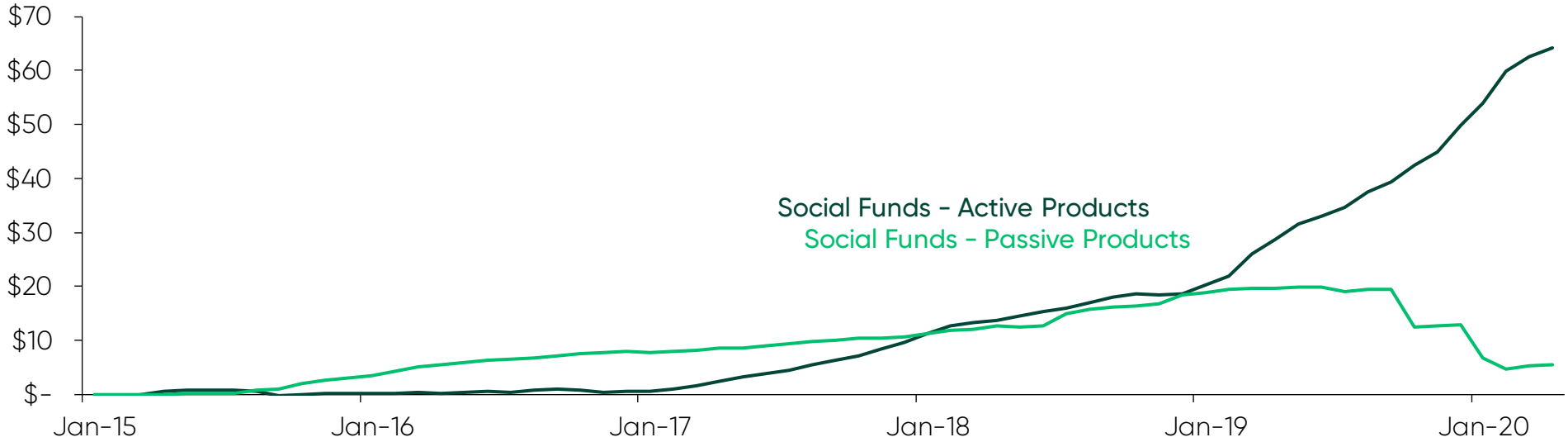


Source: Ruggie John, Middleton Emily, Money Millennials and Human Rights, Sustaining Sustainable Investing, 2018, M-RCBG Faculty Working Paper Series pg.5.

INVESTORS PREFER ACTIVELY MANAGED ESG

Likely due to the nuance and data limitations of ESG scores, since mid-2015, net inflows into active products considered as ESG Funds by Morningstar has been growing at much faster clip than passive products. Active leading is even more evident for socially focused funds.





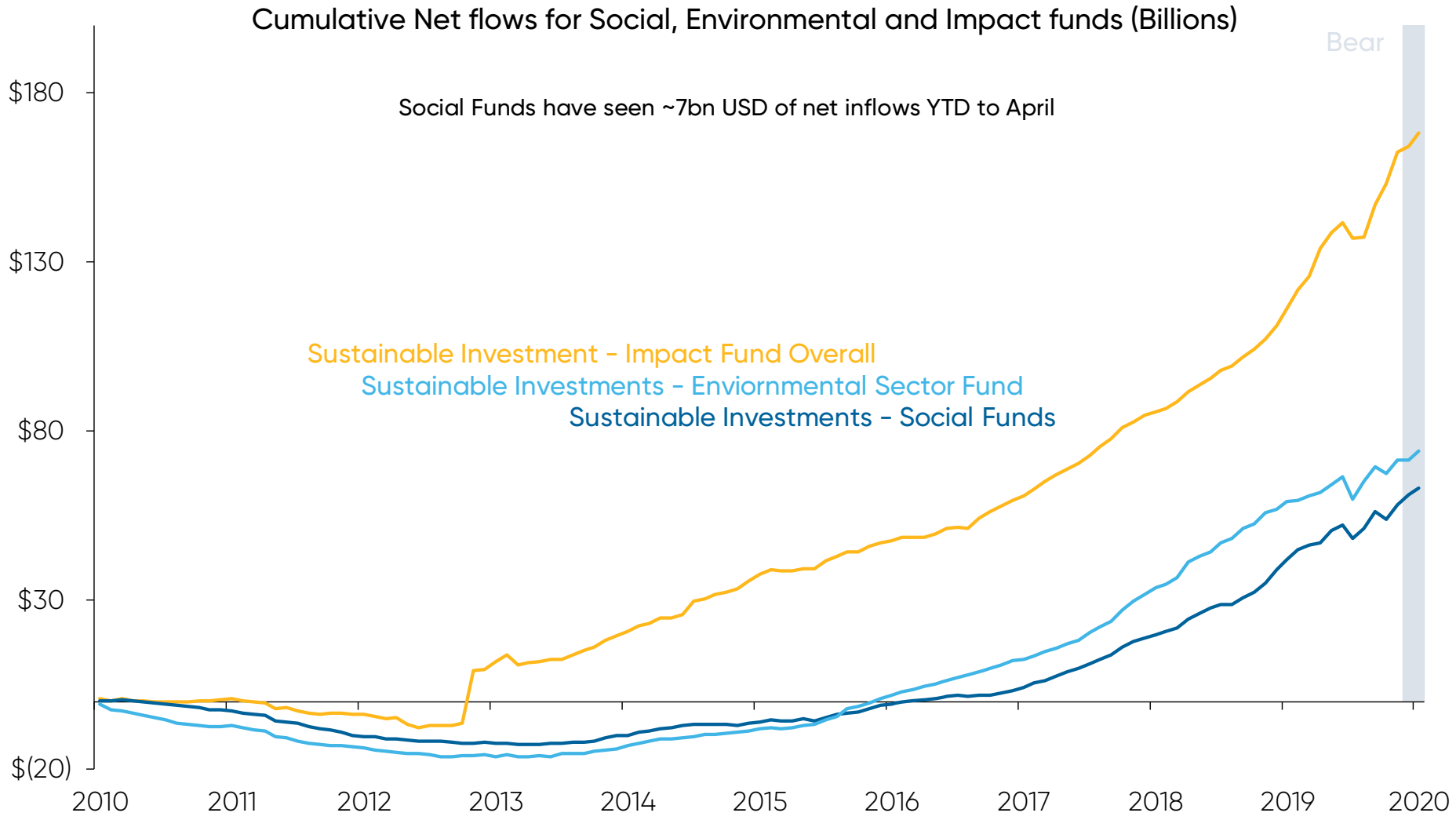
Source: Morningstar Direct as of 05/20/2020. Cumulative net flows shown for 01/01/2015 to 04/30/2020. Top chart shows active and passive cumulative net inflows for all open-end funds & ETF's classified as satisfying the "ESG overall" sustainable investment criteria (17,649 products). Bottom chart shows active and passive cumulative net inflows for all open-end funds & ETF's classified as satisfying the "Gender & Diversity" and/or "Community Development" sustainable investment criteria (2,373 Products) As products may satisfy multiple criterias, some funds may be represented on both charts.

WHAT HAPPENS TO THE CLIMATE AGENDA IN AN ERA OF INCREASING SOCIAL FOCUS?

Local signs put up in Portland Oregon during March 2020.

"E" AND "S" COME TOGETHER

Net flows into environmental, social and impact funds remain positive despite the current market environment. Moving forward we expect to see continued demand for both E and S focused funds. Impact Investing—which incorporates both E and S considerations-is one of the fastest growing types of ESG investing globally.



Source: Morningstar Direct, as of 05/22/2020. Shows cumulative net inflows for open-end and exchange traded funds in billions of USD, from 04/30/2010 to 04/30/2020. Based on the Morningstar sustainable investment criteria's as shown on chart. Social funds are based on the aggregate flows for the Community Development and Gender & Diversity Morningstar Sustainable Investment criteria's. Based on 2,373 active and passive products. Based on 11,704 active and passive products.

SUMMARY

- Don't read too much into passive ESG performance in 2020 COVID-19 downturn
    - ESG matters, ESG scoring isn't always a good reflection of what matters

- What Are the Evolving Engagement Themes of the Global Health Crisis?
    - Trends toward recognizing corporations' broader role in society is gaining support, leading to ESG related engagement opportunities

- Global Pandemic derailed the longest running bull market but has not slowed ESG demand
    - Following the public health crisis, investors continue to seek active ESG funds with social and environmental focuses

FISHER INVESTMENTS

AN OVERVIEW

EXPERIENCED

- Founded by Ken Fisher in 1979
- Over $98 billion in assets under management
- Over $29 billion in institutional assets under management
- UNPRI Signatory with experience managing ESG/SRI mandates for over 25 years (since 1989). As of March 31 2020, FI managed assets valued at over $13.2 billion for 53 ESG/SRI mandates across all of the firm's strategies: Emerging Markets Equity, Global Developed Equity, Non-US Equity, and US Equity.

GLOBAL

- Global research platform
- 3000+ employees across global offices in Australia, Dubai, Germany, Luxembourg, Ireland, Japan, US and UK

FOCUSED

- Asset management is our primary business

INDEPENDENT

- 100% Fisher employee and family-owned
- Aligns the interests of our employees with our clients
- Helps retain key employees

STABLE

- Firm culture emphasizes employees building careers by building breadth and depth across the firm and promoting from within

As of 3/31/2020.

DISCLOSURES

FIRM

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For purpose of defining "years with Fisher Investments," FI was established as a sole proprietorship in 1979, incorporated in 1986, registered with the US SEC in 1987, replacing the prior registration of the sole proprietorship, and succeeded its investment adviser registration to a limited liability in 2005. "Years with Fisher Investments" is calculated using the date on which FI was established as a sole proprietorship through March 31, 2020.

FI is wholly owned by Fisher Investments, Inc. Since Inception, Fisher Investments, Inc. has been 100% Fisher-family and employee owned, currently Fisher Investments Inc. beneficially owns 100% of Fisher Investments (FI), as listed in Schedule A to FI's Form ADV Part 1. Ken and Sherrilyn Fisher, as co-trustees of their family trust, beneficially own more than 75% of Fisher Investments, Inc., as noted in Schedule B to FI's Form ADV Part 1.

Investing in financial markets involves the risk of loss and there is no guarantee that all or any capital invested will be repaid. Past performance neither guarantees nor reliably indicates future performance. Other methods may produce different results, and the results for individual portfolios and for different periods may vary depending on market conditions and the composition of the portfolio. The value of investments and the income from them will fluctuate with world financial markets and international currency exchange rates.

The information in this document constitutes the general views of Fisher Investments and should not be regarded as personalized investment advice or a reflection of the performance of Fisher Investments or its clients. We provide our general comments to you based on information we believe to be reliable. There can be no assurances that we will continue to hold this view; and we may change our views at any time based on new information, analysis or reconsideration. Some of the information we have produced for you may have been obtained from a third party source that is not affiliated with Fisher Investments. Fisher Investments requests that this information be used for your confidential and professional use. Data is month end and USD unless stated otherwise.

FISHER INVESTMENTS™

INSTITUTIONAL GROUP

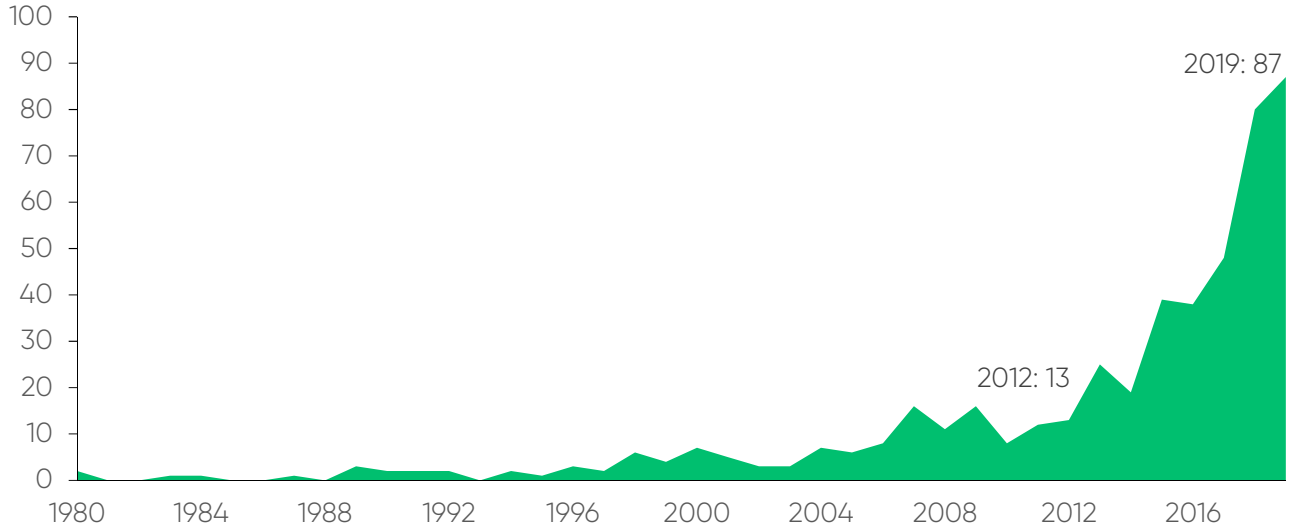
OPPORTUNITIES IN LOW-CARBON INVESTMENTS

KEY POINTS:

- **Low carbon and fossil-fuel free strategies are growing in demand among institutional investors.**
- **Overly restrictive approaches to carbon divestments may limit opportunity set.**
- **Opportunities exist in low-carbon investments when viewed at the macro level.**
- **Fisher Investments (FI) strategically integrates low-carbon themes into investment process.**

Incorporating carbon considerations as part of an overall investment process has been led by large European institutional investors, but is fast becoming more popular. As shown in Exhibit 1, demand for low carbon products has grown dramatically over the last 40 years, illustrating the importance investors put behind carbon factors. Alongside traditional analysis of companies' financial statements and corporate strategy, assessing emissions data, fossil fuel and clean technology exposure are among nonfinancial factors that investors are emphasizing.

Exhibit 1: Increasing Low-Carbon & Fossil-Fuel Free Strategy Demand



*Source: Morningstar Direct, accessed *December 2019. Shows absolute, non-cumulative count of products incepted by calendar year for All Managed Investments, filtered through the "Low Carbon/Fossil-Fuel Free" data point. Search is restricted to user defined primary share classes and surviving investments only.*

In particular, thermal coal (a type of carbon-based fuel that is burnt to generate electricity using steam turbines) has risen to be one of the most widely criticized carbon-based asset as it is the largest single source of global carbon emissions. Altogether, the combustion of thermal coal accounts for 40% of the total man-made CO2 emissions and 29% of the total manmade greenhouse gas emissions[i]. As a result, many investors agree that focusing on thermal coal is the most effective low-carbon investment opportunity.

FI is cognizant of potential effects of transitioning to a lower-carbon economy and views climate change as a long-term consideration with the potential to impact equity markets primarily through legislative action and innovative energy efficient solutions. In making investment decisions we are also willing to partner with our clients to accommodate specific carbon mandates (see page 6 for more information).

i Source: International Energy Agency, as of March 2019.

OVERLY RESTRICTIVE APPROACHES TO CARBON DIVESTMENTS MAY LIMIT OPPORTUNITY SET

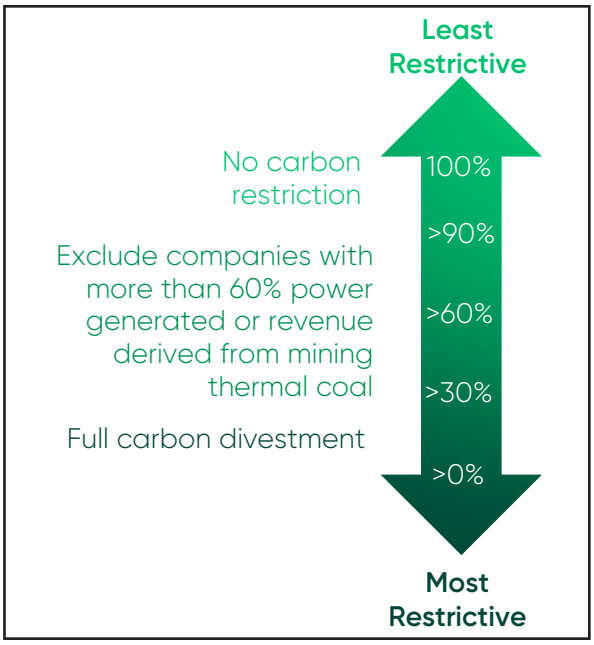
For institutional investors that are facing the possibility or necessity to divest from carbon, there are multiple approaches. Investors may construct their divestment strategy by answering the following questions:

1. **What type of carbon-based fuel should be excluded?**
   - Thermal coal
   - Oil
   - Natural gas
   - Biofuels
2. **Which metrics should be used?**

   Examples:
   - Revenue derived
   - Power generated
   - MSCI environmental rating
   - Reserves ownership
3. **What threshold level should be set?**

   Examples:
   - Divest companies with ≥60% of power generated or revenue derived (Exhibit 2)
   - Divest companies with BBB rating or above
   - Divest companies with oil reserves

Exhibit 2: Thermal Coal Threshold Level



Depending on the answer to each of the above questions, various types of divestment strategies can be implemented - from restricting a small list of companies to a longer, more general list. The divestment parameters act as a lever influencing the number of constituents in the investable universe. Therefore, an investor should be mindful that an overly restrictive approach to divestment may limit opportunities. For example, divestment of companies that derived all of its revenue from carbon-based fuels will exclude large portions of the energy and utility companies. As a result, performance may also deviate substantially from the benchmark and lead to an increase in portfolio risk.

FISHER INVESTMENTS' DIVESTMENT APPROACH

FI believes in constructing a carbon divestment strategy that restricts the worst offenders while offsetting portfolio risks. The following details how our research group constructed our divestment strategy:

1. **Type of carbon-based fuels: Thermal Coal**

   Like many investors, we also believe in excluding thermal coal because it produces the most CO2 emissions per unit of energy than any other fuels.
2. **Metrics: Power Generated or Revenue Derived**

   Our objective is to choose a metric that directly isolates thermal coal business activity. Initially, the ownership of thermal coal reserves metric seemed to be suitable. Many investors believe withdrawing financial capital from the suppliers means that thermal coal reserves would not be extracted for fuel. However, this metric is not comprehensive enough to identify companies with other business activities related to thermal coal such as exploration activities, midstream operations (transportation, storage, and wholesaling) and downstream operations (refining, processing, marketing and distribution).

Metrics continued...

We believe in restricting thermal coal based on *power generated* or *revenue derived*. *Power generated* captures companies that use thermal coal as a source of fuel, and *revenue derived* isolates companies with considerable income from selling thermal coal. In looking at these two metrics, we are able to restrict companies either by upstream or downstream activities.

3. Threshold level: More than 30%

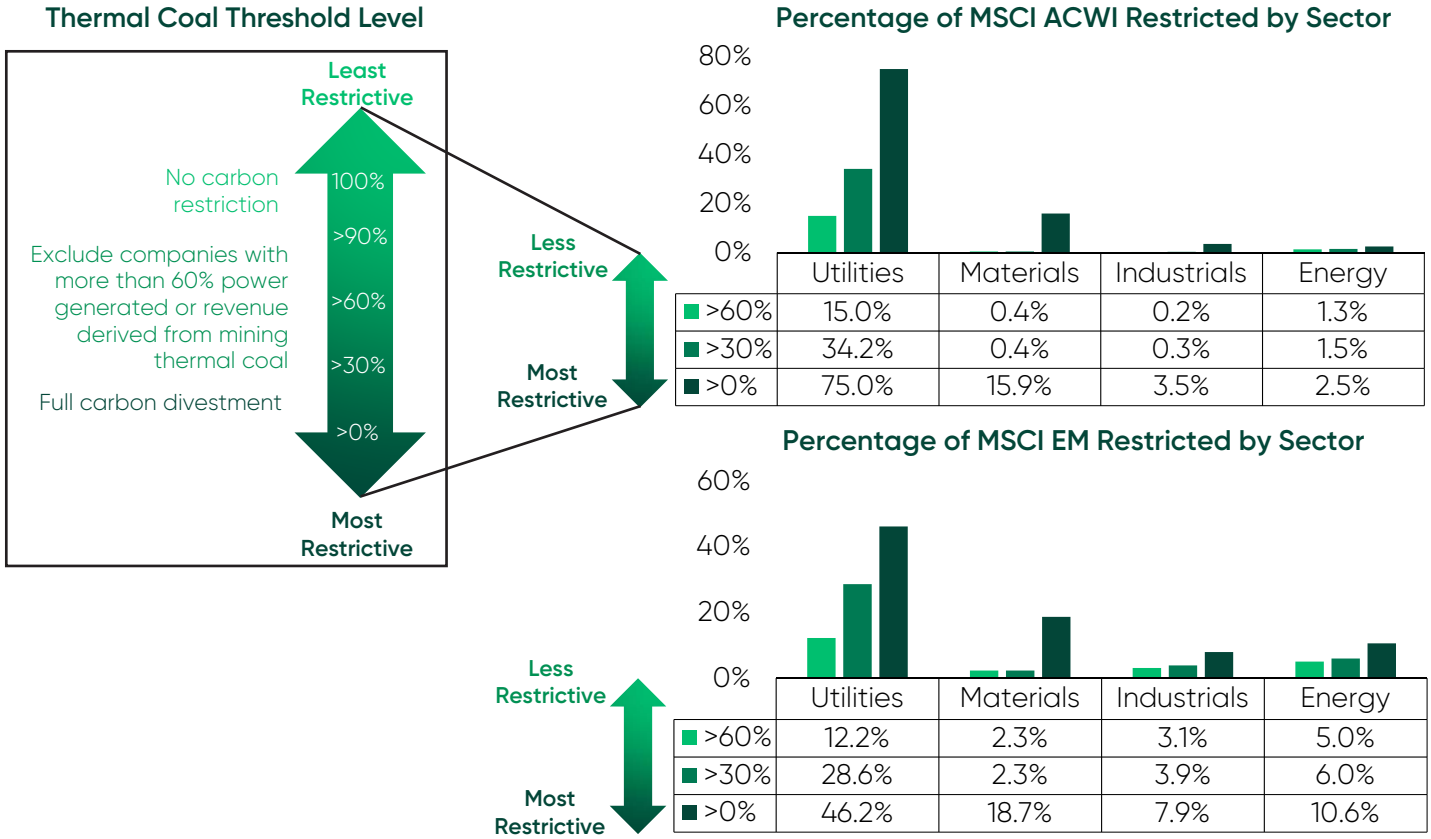
Determining an appropriate restriction threshold is paramount as restrictions have varied affects across sectors. Sectors with business activities directly related to the carbon-based fuel industry like Energy, Utilities, Materials and Industrial have varying degrees of impact. For example, complete divestment from thermal coal restricts 75% of the Utilities sector in MSCI ACWI (Exhibit 3). In contrast, restriction at the 30% threshold only limits 34% of the Utilities sector.

Overall, we have chosen to set a 30% divestment threshold level. By eliminating companies with more than 30% power generated or revenue derived from mining thermal coal, the worst carbon offenders are restricted and reduces the total carbon emissions of the investable universe by a third[ii].

This threshold level fulfills both a carbon divestment mandate and gives FI the flexibility to exercise our long-term investment decision process. Additionally, this approach is financially more practical in capturing a broader exposure to innovative and sustainable companies.

Exhibit 3: Varying Degrees of Impact to Sector Benchmark Holdings With Thermal Coal Power Generated or Revenue Derived Restrictions

"COMPLETE DIVESTMENT FROM THERMAL COAL RESTRICTS 75% OF THE UTILITIES SECTOR IN MSCI ACWI. IN CONTRAST, RESTRICTION AT THE 30% THRESHOLD ONLY LIMITS 34%"



Percentage of MSCI ACWI Restricted by Sector

	Utilities	Materials	Industrials	Energy
>60%	15.0%	0.4%	0.2%	1.3%
>30%	34.2%	0.4%	0.3%	1.5%
>0%	75.0%	15.9%	3.5%	2.5%

Percentage of MSCI EM Restricted by Sector

	Utilities	Materials	Industrials	Energy
>60%	12.2%	2.3%	3.1%	5.0%
>30%	28.6%	2.3%	3.9%	6.0%
>0%	46.2%	18.7%	7.9%	10.6%

Source: MSCI ESG Manager, data as of December 2019.

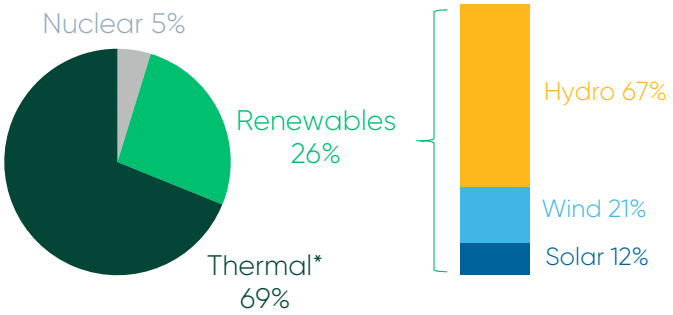
[ii] *Source: MSCI ESG Manager, data as of December 2019.*

OPPORTUNITIES IN LOW-CARBON INVESTMENTS EXISTS WHEN VIEWED AT THE MACRO LEVEL

A top-down investment process relies on analysis of a wide range of economic, political and sentiment drivers to formulate forecasts and develop portfolio themes. Integrating carbon factors when analyzing global political drivers provides insight on securities that are at risk of facing potential political or regulatory actions surrounding carbon-related issues. Similarly, monitoring multinational agreements on carbon reduction and various countries de-emphasizing the use of coal in favor of cleaner energy sources allows asset managers to uncover low-carbon investment opportunities.

For example, China is known as the world's largest polluter and uses coal as its primary source of electric power generation (Exhibit 4). However, in contrast, China is very aggressive in their goal to become more carbon-efficient as they recently increased its renewable energy production target to 35% by 2030. Currently, they are the world's largest producer of electricity from renewable energy sources (Exhibit 5).

Exhibit 4: Current Mix of Chinese Electric Power



*Source: China Energy Portal, data as of December 2019. *Thermal includes coal, gas, oil and biomass.*

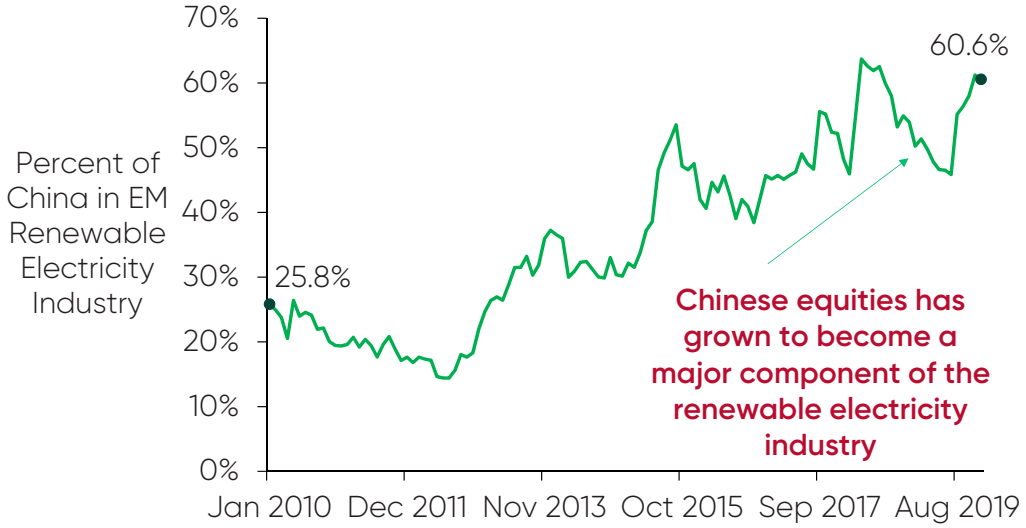
Exhibit 5: Total Electricity Generation by Renewables

Renewable Source	China Rank
Hydro-Power Generation	1
Bio-Power Generation	1
Wind-Power Generation	1
Solar PV Capacity	1
Geo-thermal Heat Output	1

Source: REN21, data as of December 2018.

The Chinese government's influence on its market create an opportunity for it to drive rapid low-carbon initiatives uptake by both investors and issuers. In recent years, Chinese equities have grown to become a major component of the renewable electricity industry in the MSCI EM index (Exhibit 6). By monitoring carbon factors from a top-down perspective, investors have an advantage in identifying key opportunities for low-carbon investments.

Exhibit 6: China's Rising Market Share in Renewable Electricity



Source: FactSet Portfolio Analysis, month-end index weights from January 2010 to December 2019.

FISHER INVESTMENTS STRATEGICALLY INTEGRATES LOW-CARBON THEMES INTO INVESTMENT PROCESS

As investors look to move towards a low-carbon economy, one major concern regarding this transition is the impact that it could have on businesses and assets. With FI's flexible top-down investment process, we can easily accomodate for active carbon divestment (see page 2 for more information) and integration of low-carbon themes into our investment process without sacrificing overarching themes. Both direct and transitional carbon risks are incorporated within FI's investment process (Exhibit 7). For example, within all portfolios, we review the impact of climate-related legislation, shifting consumer preferences on country, sector, as well as security decisions.

Exhibit 7: Examples of Direct and Transition Carbon Risk

Direct Carbon Risk (12-18 months idiosyncratic risks)	Transition Carbon Risk (long-term transition from carbon-based economy)
Litigation Risks	Shifting consumer preferences
Legislative / Political isk	Shifting supply resources
Poor environmental stewardship	Renewable technology needs
Resource & Company Preparedness	

Sources: Fisher Investments Research, as of December 2019.

Additionally, FI is able to measure the carbon emissions for individual portfolios and partner with our clients to accommodate specific carbon mandates. Currently, we offer ESG and low-carbon strategies that target a specified carbon divestment level. Within ESG portfolios, carbon-related risks are directly targeted by restricting various coal-fired utilities and mining companies involved in thermal coal extraction. Whereas within specific low carbon portfolios, FI explicitly targets a thermal coal reduction level relative to the respective strategy benchmark.

SUMMARY

Overall, FI believes climate change should be considered as part of managing both near and long term risks and for the purposes of identifying opportunities stemming from the global transition to a low carbon economy. As a result, we incorporate low-carbon themes within our organization and investment process. Our top down unique analysis of carbon serve as a source of excess return that are often overlooked by other investors.

Further, our research shows that the recommended threshold for managing thermal coal divestments is to apply a 30% threshold for thermal coal power generated or revenue derived. At this level, FI is able to focus on long-term results and seek to increase exposure to more carbon-efficient companies.

We believe our approach to low-carbon investments helps us seek to maximize the likelihood of achieving both objectives; desired performance and improving environmental and social conditions worldwide.

DISCLOSURES

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FISHER INVESTMENTS™
INSTITUTIONAL GROUP

FISHER INVESTMENTS TOP DOWN ESG ASSESSMENT & MATERIALITY RATING: BRAZIL

TOP DOWN ESG ASSESSMENT: BRAZIL

Materiality Rating*: Low Medium **High**

With an economy leveraged to commoditized Energy, Materials & Agricultural products, Brazil remains materially exposed to risks related to the global transition to a low carbon economy. Further, a history of government corruption and international pressure from Amazonian deforestation remain as risks. Fundamentally, Brazilian economic growth may surprise to the upside as economic activity recovers globally post COVID-19 and as President Bolsonaro's economic agenda provides a positive catalyst.

Key Top-Down Responsible Investments View:

Environmental:

- **Commodity Sensitivity:** Commodities (Energy, Materials, & Agriculture) account for 80% of Brazil's exports**—driving a high correlation of Brazil market performance with commodity prices. Positively, commodities demand and EM Materials companies rebounded in 2019 and from COVID-19 lows.
- **Amazonian Deforestation:** Global pressure on Brazil's government to ensure the safety of indigenous peoples and the protection of increasingly rampant deforestation grows. At its extreme, pressure from international investors and global brands may act as a material headwind.

Social:

- **Gender Inequality & Diversity:** Measures of Gender inequality (e.g. UNDP Gender Inequality Index) in Brazil are better than developing markets peers. However, female participation in national congress and in the board room remains low relative to developing market peers.
- **Extreme Poverty on the Rise:** Over the past two decades, Brazil made strides in reducing the % of population living in extreme poverty, however, since 2014 such trends have reversed (World Bank). Reforms espoused by Pres. Bolsonaro (eg. Labor/Pension Reform & privatization) run the risk of exacerbating income equality and increasing social discontent.

Governance:

- **History of Corruption:** Despite running on an anti-corruption platform, Pres. Bolsonaro is caught up in corruption allegations not unlike the accusations of bribery, electoral fraud and influence peddling that have plagued all administrations since the transition away from a military dictatorship in 1985.
- **Reform Hopes:** Pres. Bolsonaro has a lofty reform agenda to make Brazil more business-friendly and open up opportunities for outside investors. Proposals include the recently-passed pension reform, an overhaul and simplification of the tax system, privatization of state-owned companies and reducing the budget deficit.
- **State Ownership in Major Firms:** High relative ownership (and therefore influence) increased the general risks to international investors in some of Brazil's largest companies such as State-owned PetroBras.

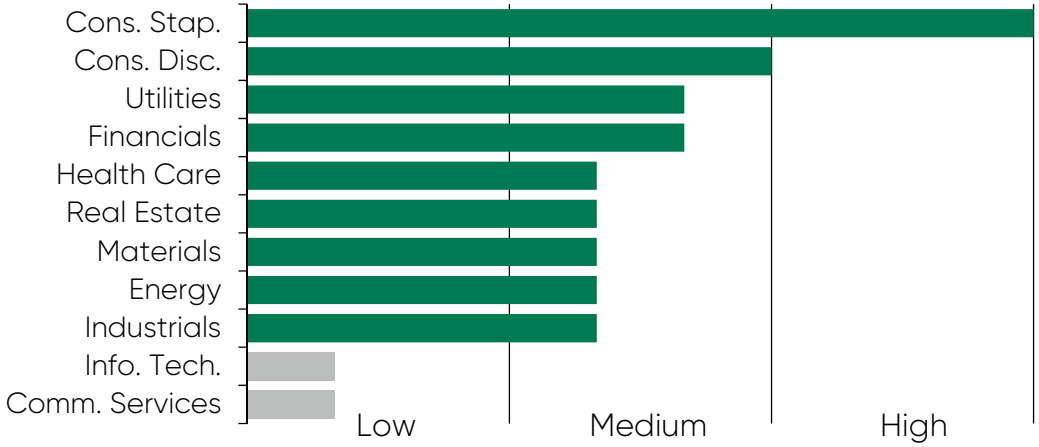
**Please see full Materiality Rating disclosure on pg. 5.*
***Source: United Nations; 2018.*

RESPONSIBLE INVESTMENTS MATERIALITY RATING: BRAZIL

Materiality Rating: Low Medium **High**

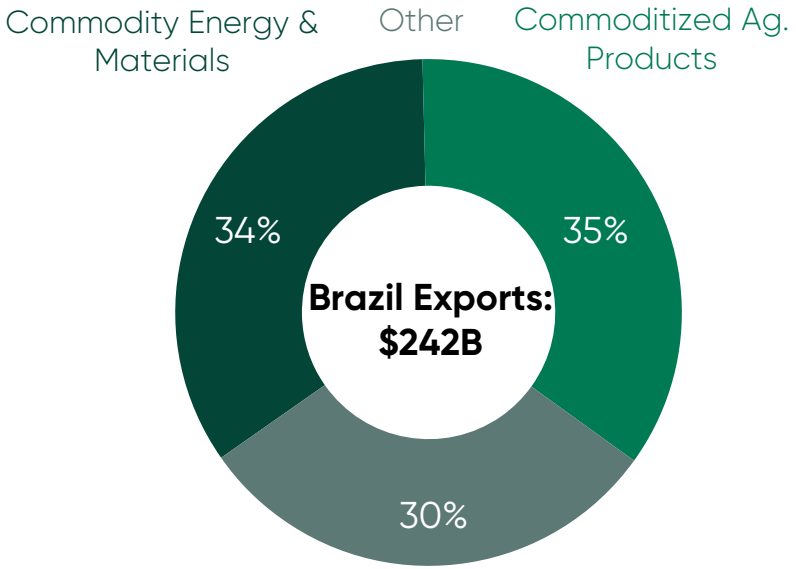
FI Resp. Inv. Themes	Exposure
Health & Nutrition	**High**
Energy Efficiency	Medium
Sustainable Building	Medium
Alt./Renewable Energy	Medium
Sustainable Agriculture	Medium
Sustainable Water	Medium
Education & Digital Access	Medium
Access to Finance	Medium
Affordable Housing	Low

Brazil: RI Theme Exposure by Sector



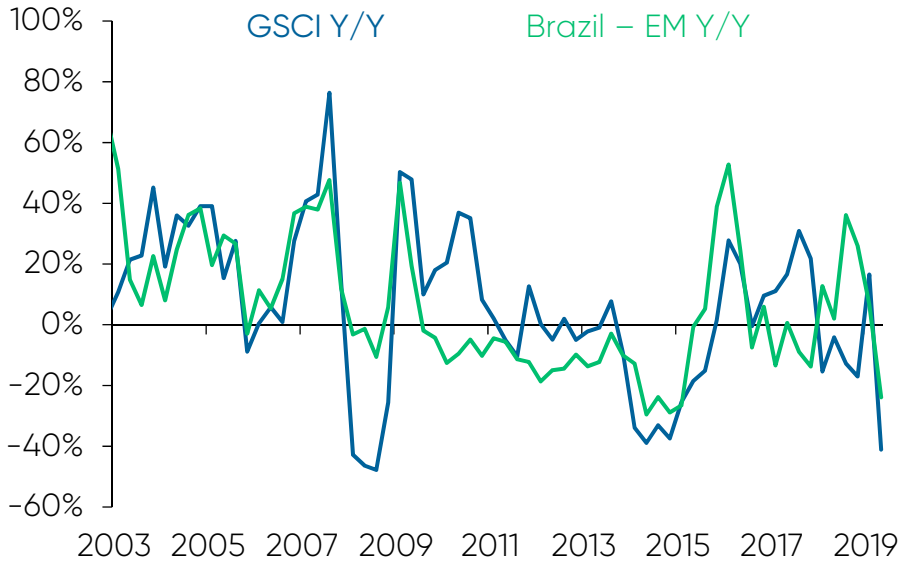
Source: Fisher Investments & MSCI Research, Q2 2020.

Climate Risks: Brazil's Commodity Economy



Source: United Nations; 2018 Exports, USD. Percentages may not add up to 100 due to rounding.

Brazil Commodity & Performance Linked



Source: GSCI Commodity Index, MSCI Inc., FactSet.

RESPONSIBLE INVESTMENTS MATERIALITY RATING: BRAZIL

Materiality Rating: Low Medium **High**

Key ESG Risks	Exposure
Climate Change	**High**
Human Capital	**High**
Natural Resources	**High**
Product Liability	Medium
Corporate Behavior	Medium
Corporate Governance	Medium
Env. Opportunities	Low
Pollution & Waste	Low
Social Opportunities	Low
Stakeholder Opposition	Low

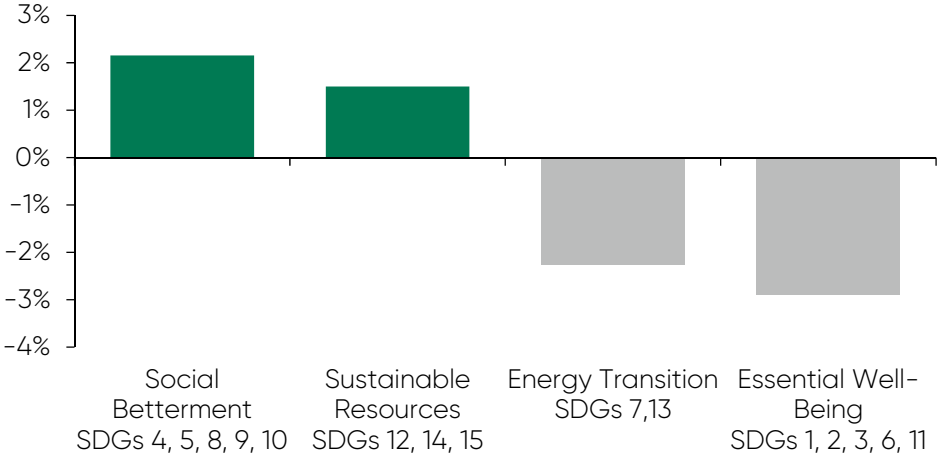
Political Corruption Remains a Key Risk

President	Term	Accusation	Result
Jose Sarney	1985-1990	Overbilling, Nepotism	Impeachment requested, but not finalised
Fernando Collor	1990-1992	Bribery, Influence Peddling	Impeachment
Fernando Henrique Cardoso	1995-2003	Collusion, Buying Congressional Votes	President's party bore the brunt of the scrutiny
Luiz Inácio Lula da Silva	2003-2010	Bribery, Buying Congressional Votes	Arrested in 2014 after leaving office
Dilma Rousseff	2011-2016	Administrative Misconduct	Impeachment
Michel Temer	2016-2018	Bribery, Electoral Fraud	Arrested in 2019 after leaving office
Jair Bolsonaro	2019 - present	Corruption, Obstruction of Justice	Pending

Source: Fisher Investments Research, Q2 2020.

UN Sustainable Dev. Goals Revenues vs. MSCI ACWI

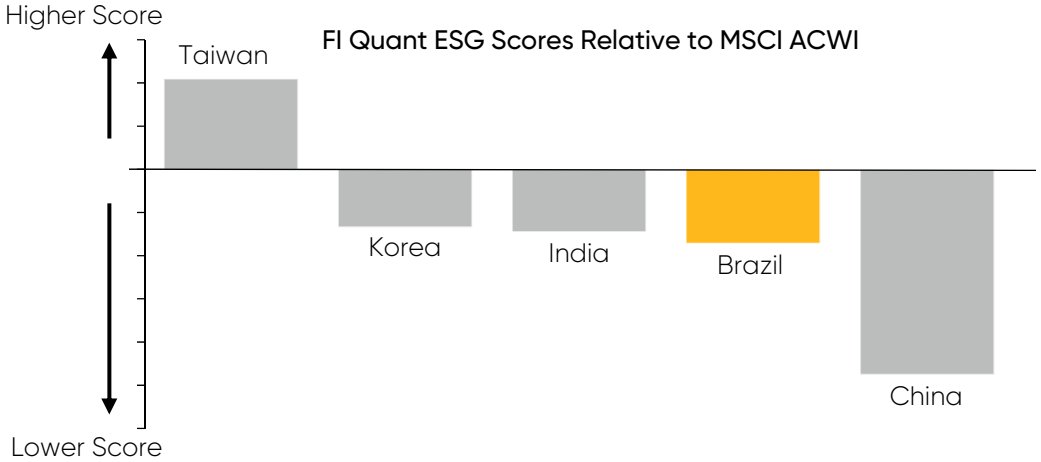
Brazil has a relatively modest exposure to the environmental & social goals of the UN SDGs.



Source: MSCI ESG Research, Q2 2020.

Fisher Quant 'ESG Momentum' Scores

MSCI Brazil constituents exhibit lower 'ESG Momentum' relative to major emerging markets peers.



Source: Fisher Investments Research, Q2 2020.

DISCLOSURES

FIRM

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MATERIALITY RATING

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FISHER INVESTMENTS TOP DOWN ESG ASSESSMENT & MATERIALITY RATING: INFORMATION TECHNOLOGY

TOP DOWN ESG ASSESSMENT: INFO TECH

Materiality Rating*: Low **Medium** High

The Information Technology (IT) Sector is materially exposed to both Environmental & Social Responsible Investments trends and risks. While the sector faces potential headwinds related to shifting political influence and data privacy concerns, the sector is also well positioned to benefit from trends related to energy efficiency, renewable electricity production, and access to communications. Fundamentally, the sector is skewed toward large, high-quality firms and should benefit from robust global IT spending.

Top-Down Responsible Investments View:

Environmental:

- **Cloud Computing & Energy Efficiency Gains:** The on-going transition to cloud computing reduces energy consumption relative to traditional 'on premises' computing. Cloud computing reduces total cost burdens (including energy consumption) for businesses by allowing firms to more dynamically scale—turning costly upfront fixed costs into variable costs aligned with growth. This feature increases technology capacity utilization, reduces IT staffing needs and increasing workforce productivity.
- **Renewable Energy:** The IT sector, Solar/Semiconductors makers specifically, are well positioned to benefit from renewable electricity production trends. While the fundamental growth in solar electricity production is likely to remain robust, solar stocks face specific challenges related to large swings in sentiment, political and legislative changes, and price declines that pressure margins.

Social:

- **Data Security & Privacy Laws:** Shifting consumer preferences combined with political pressure may increase privacy requirements & privacy-related liabilities. Such preference shifts may be simultaneously tailwinds (creating new market opportunities for security related software companies) and headwinds (data breaches and regulatory/legislative scrutiny create increased liabilities) for the sector.
- **Enabling Social Improvement:** The IT sector stands to benefit broadly from trends that focus on improving the lives of underserved and developing nation populations globally. IT companies create the enabling technologies for a host of benefits of social good such as access to communications/online education, access to finance (cashless and mobile payments) and healthcare technology.

Governance:

- **Anti-Trust:** Pure Technology companies are among the least regulated leaving the sector at risk of increased regulation. Governments around the world may increasingly use anti-trust laws to reduce intellectual property royalties, as well as national security as a rationale to impede cross border M&A. Further, calls for Tech regulation in the US are increasing ranging from social media legal immunity, anti-competitive business practices and M&A investigations from regulatory bodies globally.

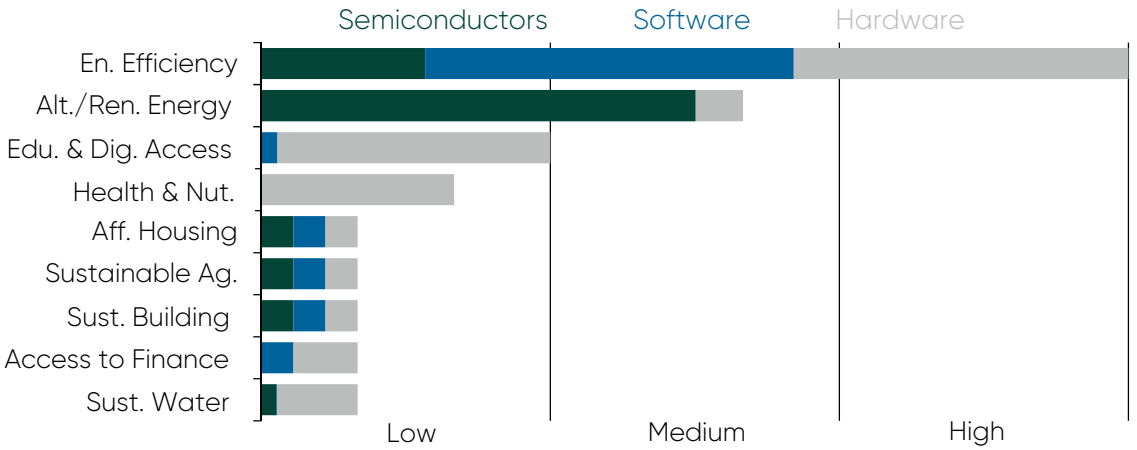
**Please see full Materiality Rating disclosure on pg. 5.*

RESPONSIBLE INVESTMENTS MATERIALITY RATING: INFO TECH

Materiality Rating: Low Medium High

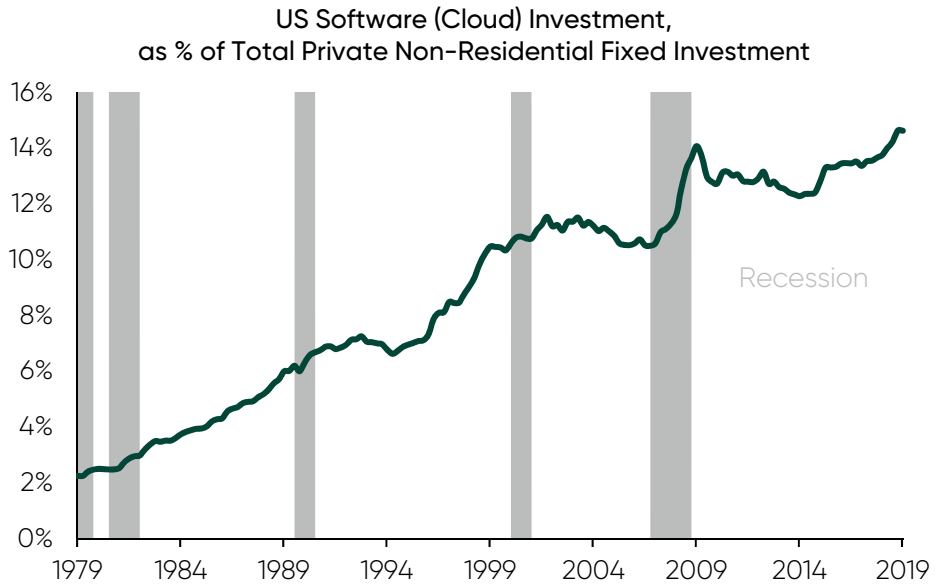
FI Resp. Inv. Themes	Exposure
Energy Efficiency	**High**
Alt./Renewable Energy	Medium
Sustainable Building	Low
Sustainable Agriculture	Low
Sustainable Water	Low
Affordable Housing	Low
Education & Digital Access	Low
Health & Nutrition	Low
Access to Finance	Low

Info Tech: RI Theme Exposure by Industry Group



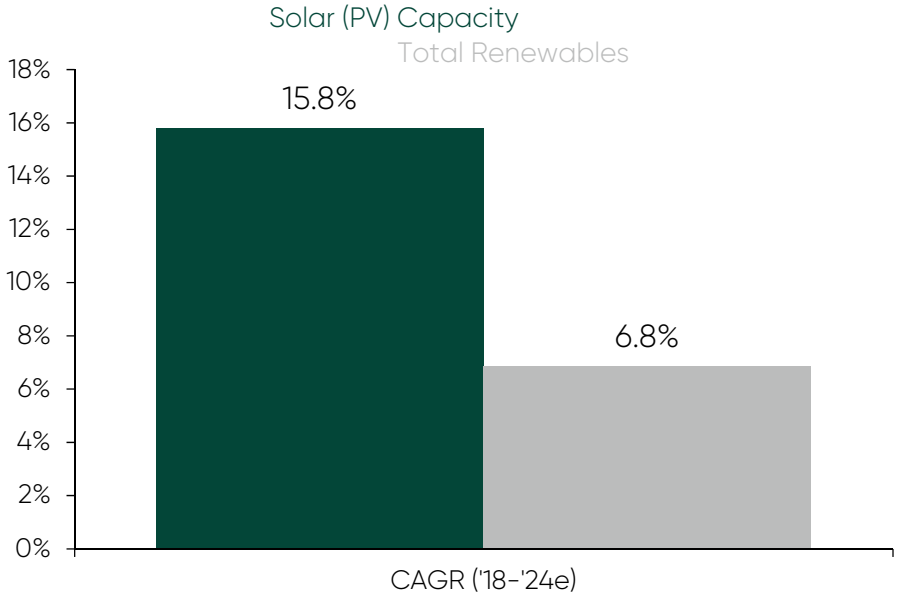
Source: Fisher Investments Research and MSCI ESG Research, Q2 2020.

Energy Efficient Cloud Computing



Source: US BEA, FactSet as of 12/31/2019.

Solar Capacity Growth Outstrips Renewables



Source: IEA; 'Renewables 2019' Report.

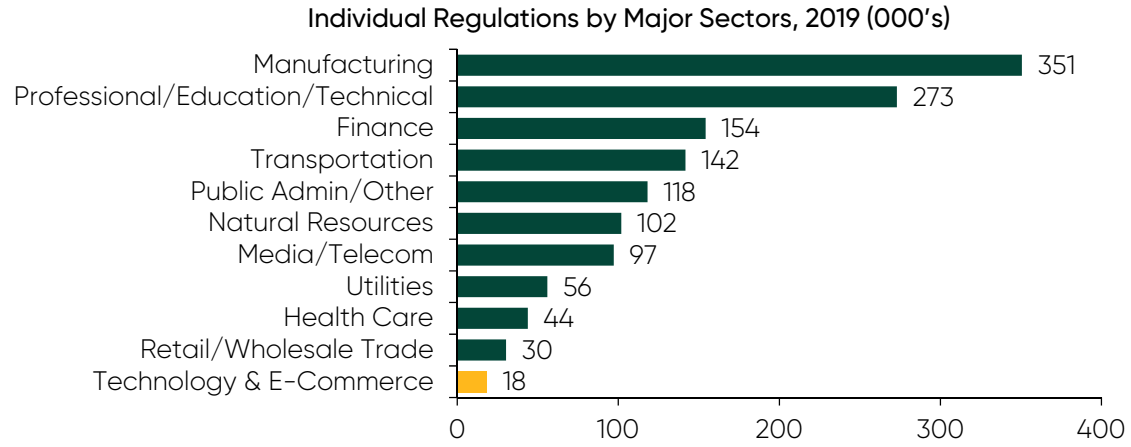
RESPONSIBLE INVESTMENTS MATERIALITY RATING: INFO TECH

Materiality Rating: Low Medium High

The Sector is highly exposed to key risks including political influence, Corporate Governance, Data Privacy, Supply Chain, Materials sourcing & Human Capital/Talent risks.

Key ESG Risks	Exposure
Corporate Governance	**High**
Human Capital	**High**
Environmental Opportunities	Medium
Product Liability	Medium
Climate Change	Low
Corporate Behavior	Low
Natural Resources	Low
Pollution & Waste	Low
Social Opportunities	Low
Stakeholder Opposition	Low

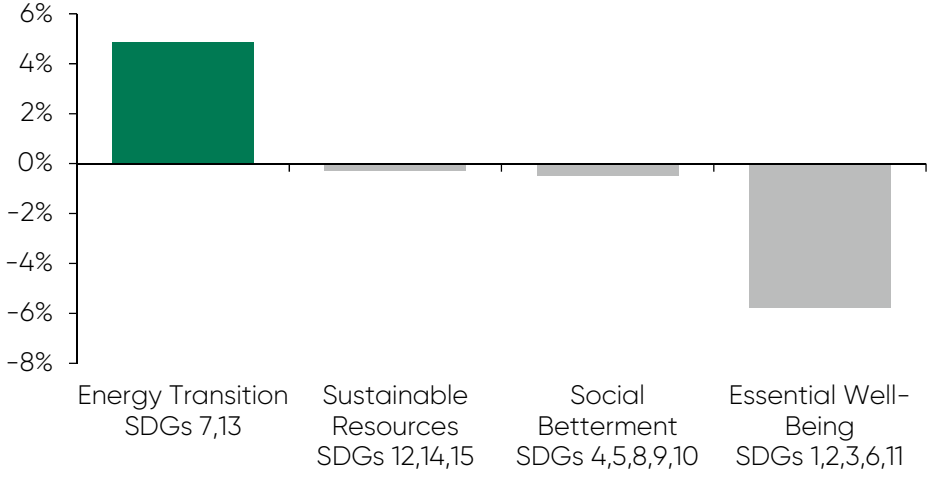
Technology Sector Remains Less Regulated



Source: McLaughlin, Strosko, Nelson; QuantGov.

UN Sustainable Dev. Goals Revenues vs. MSCI ACWI

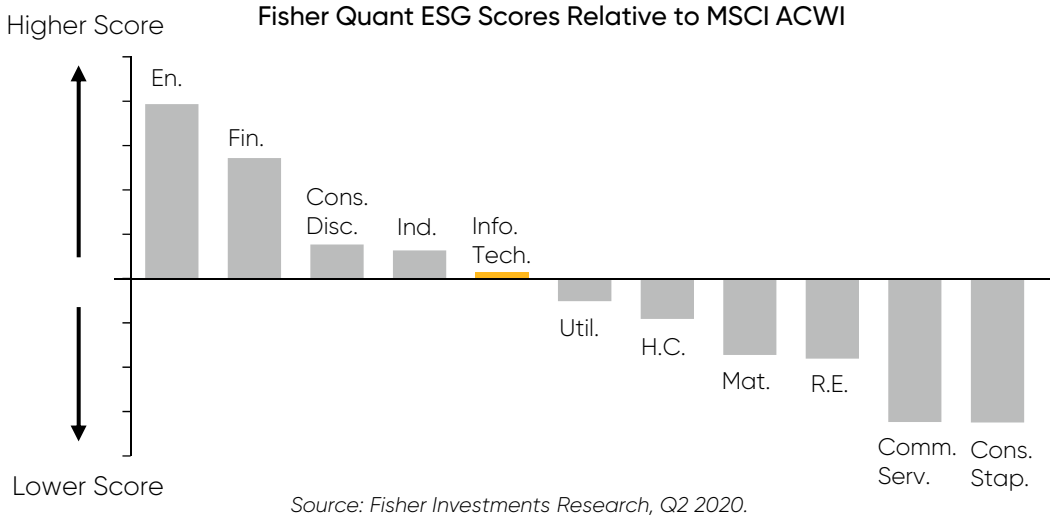
Info Tech has a relatively high exposure to the environmental & social goals of the UN SDGs.



Source: MSCI ESG Research, Q2 2020.

Fisher Quant 'ESG Momentum' Scores

MSCI ACWI Info Tech constituents exhibit higher 'ESG Momentum' relative to other sectors.



Source: Fisher Investments Research, Q2 2020.

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ESG

PERSPECTIVES NEWSLETTER

FISHER INVESTMENTS™ INSTITUTIONAL GROUP

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ESG PHILOSOPHY STATEMENT

We believe ESG investors are best served by an investment process that considers both top-down and bottom-up factors. Integrating ESG analysis at the country, sector and stock levels consistent with clients' investment goals and ESG policies maximizes the likelihood of achieving desired performance and improving environmental and social conditions worldwide.

Designed by Tiffany TranNguyen
Institutional Project Coordinator

FISHER INVESTMENTS ESG PROGRAM AT A GLANCE

HOW DOES TOP-DOWN ESG INVESTING ADD VALUE?

Zoe Abbott Boyd
ESG Program Manager

HOW DOES AN ACTIVE TOP-DOWN APPROACH HANDLE THE NUANCES OF ESG INVESTING?

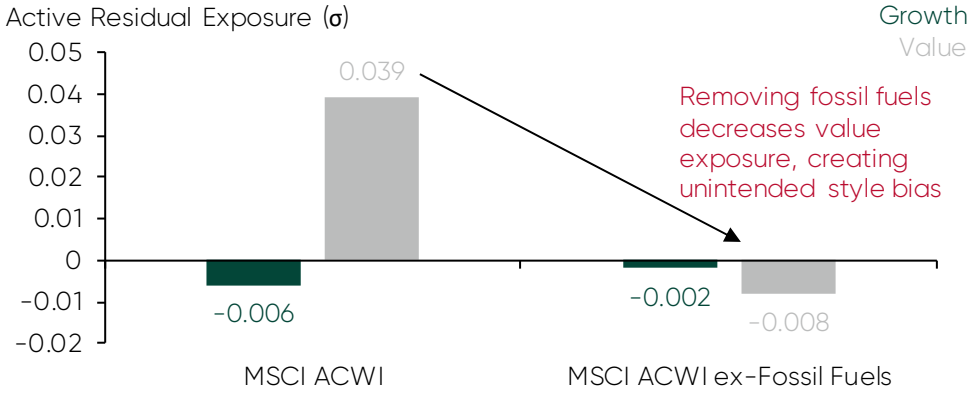
Despite popularity of environmental, social and governance (ESG) strategies, many investors struggle to understand how to incorporate ESG into investment processes. Should investors simply exclude "bad" ESG actors? Should they only buy the most environmentally and socially friendly companies? Perhaps buying the "bad ESG actors" and utilizing company ownership to actively engage on ESG issues is the optimal strategy?

Given the multitude of options for ESG investors, good intentions do not automatically prevent unintended portfolio risks. Excluding companies based on ESG scores alone can materially restrict the investable universe and can create unintended portfolio distortions relative to industry, size and style exposure. While environmentally conscious investors agree that climate change should be factored into portfolio considerations, the specifics of mitigating fossil fuel investment or capitalizing on clean energy opportunities remains debatable.

"Limited historical data, low correlations among ESG rating providers, and murky industry standards make rigorous passive ESG investing impractical."

For example, removing high fossil fuel generating companies can give portfolios a growth bias (Exhibit 1).

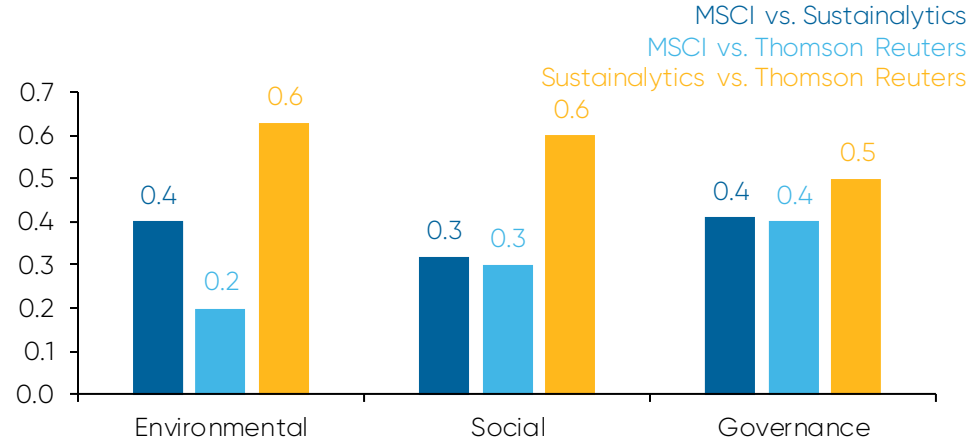
EXHIBIT 1: PASSIVLEY REMOVING FOSSIL FUELS MAY CREATE STYLE BIAS



Source: MSCI Barra Portfolio Manager. As of December 2019.

Additionally, correlations among rating providers are surprising low. If you screen companies based on ESG scores you could have materially different portfolios depending the rating provider you choose (Exhibit 2).

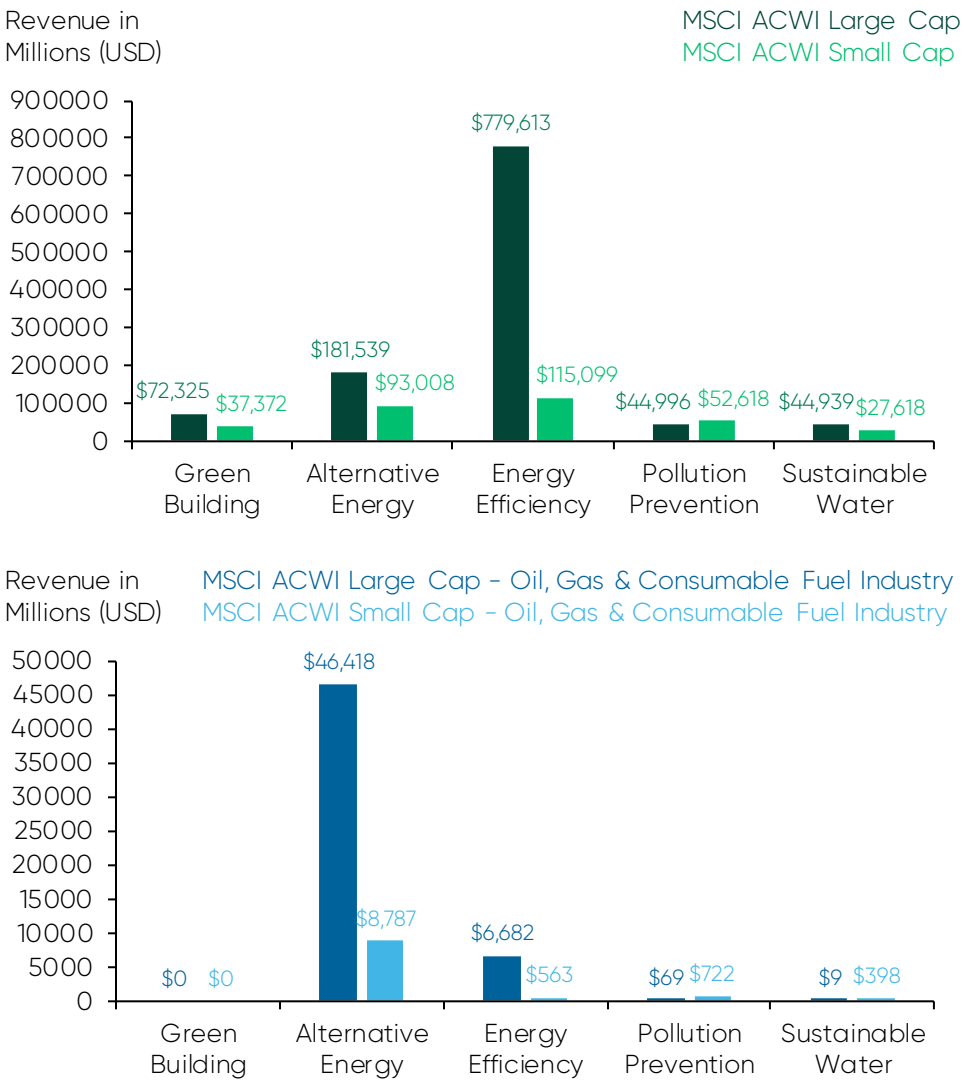
EXHIBIT 2: SURPRISINGLY LOW CORRELATIONS AMONG ESG RATING PROVIDERS



Source: Schroders. As of March 2018.

Similarly, investors focusing exclusively on pure-play renewable energy firms miss environmental opportunities from exposure to large energy firms (Exhibit 3).

EXHIBIT 3: AGAINST OIL ODDS – HOW INVESTING IN LARGE ENERGY COMPANIES FIGHTS CLIMATE CHANGE



Source: MSCI ESG Research. As of December 2019.

Active management is crucial to accurately navigate environmental and social portfolio risks and opportunities. Limited historical data, low correlations among ESG rating providers, and murky industry standards make rigorous passive ESG investing impractical.

We have decades of experience actively managing portfolios considering government corruption, environmental legislation, labor developments, human rights and other macro ESG considerations. Each year our ESG program continues to expand and develop, and we are excited to continue building out our ESG capabilities.

EXHIBIT 4: EXAMPLES OF TOP-DOWN ESG INVESTMENT CONSIDERATIONS

	Environmental	Social	Governance
Economic	Natural Resource Exposure Energy Exports/Import Urbanization	Wages and Labor Cost Demographic Shifts Access to Health Care and Education	Progress Reform Capital Markets Regulations Embargoes and Tariffs
Political	Environmental Legislation Renewable Energy Opportunities Pollution Prevention	Human Rights Immigration Policies Access to Fair Elections	Institutional Corruption Government Stewardship Shareholder Friendly Legislation
Sentiment	Natural Disaster Sustainability Themed Fund Net Flows Healthier Lifestyle Shifts	Disease Epidemics Divestment Movements Racial Tension	Anti-Corruption Crackdown Government Stability Perception Political Scandals

2019 marked a big year for ESG at Fisher Investments. This year, we launched our first impact portfolio-aligned with the UN Sustainable Development Goals, hired an industry expert on corporate engagement & responsibility, continued pushing data boundaries throughout our proprietary ESG research and started exploring ways to make our operations more sustainable.

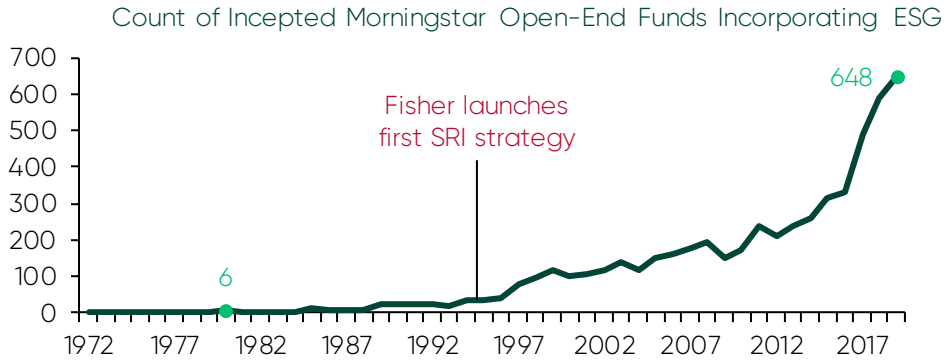
INDUSTRY ESG STRATEGY GROWTH

As ESG mandates continue to gain popularity, ESG investing is becoming a key component of global capital markets. Demand for ESG oriented strategies has grown consistently over the last 50 years, illustrating the importance and value investors put behind considering ESG factors (Exhibit 5).

"ESG investing is becoming a key component of global capital markets."

Top-Down managers and ESG conscious investors both analyze factors outside of the scope of traditional financial statement analysis. While other managers have rushed to incorporate ESG into their investment strategies, FI has been managing responsible investment portfolios for more than two decades and has always strived to incorporate ESG elements into our firm's operations.

EXHIBIT 5: EVOLUTION OF ESG DEMAND



Source: Morningstar Direct. As of December 2019. Based on 5,537 observations. Fisher's SRI strategy was US Small Cap Capabilities ESG and was seeded February 1995.

PRI Principles for Responsible Investment

THE UK STEWARDSHIP CODE

Japanese Stewardship Code

We are a United Nations Principal for Responsible Investment Signatory, support the U.K. Stewardship Code and are a signatory of the Japanese Stewardship Code.

CONTINUING EXPANSION OF ESG ORGANIZATION SUPPORT IN 2019

- **UN Global Compact Participant:** The UN Global Compact is a voluntary initiative based on company commitments to implement universal sustainability principles and to undertake partnerships in support of UN goals.
- **CDP Signatory:** CDP runs the global environmental disclosure system. Each year CDP supports thousands of companies, cities, states and regions to measure and manage their risks and opportunities on climate change, water security and deforestation.
- **Climate Action 100 Signatory:** Climate Action 100 is an investor initiative to ensure the world's largest corporate greenhouse gas emitters take action on climate change. The companies include 100 'systemically important emitters', accounting for two-thirds of annual global industrial emissions, in addition to 60 companies with high opportunity to promote clean energy.
- **Task Force on Climate-related Financial Disclosure (TCFD) Supporter:** The FSB TCFD creates voluntary, consistent climate-related financial risk disclosures for firms to provide for investors, lenders, insurers, and other stakeholders.
- **Conservation International Supporter and Emerald Circle Member:** Conservation International works to highlight the critical opportunities that nature provides to humanity. They work to protect more than 2.3 million square miles of land and sea across 70+ countries.

FISHER INVESTMENTS
TOP-DOWN ESG RESEARCH

HOW DO WE DRIVE MEANINGFUL CORPORATE ENGAGEMENT?

Anita Green
Vice President of Investor Responsibility and Engagement

WHAT IS ESG CORPORATE ENGAGEMENT AND HOW DOES IT DRIVE VALUE?

Simply put, it involves having conversations with corporate management or a board of directors about specific ESG issues. Through these conversations we assess the company's level of awareness, discover potential impact to its business (is it a risk or an opportunity?), and determine if the company is on track to achieve previously set targets. Ultimately the purpose of corporate engagement is to create and retain shareholder value by focusing attention on significant business issues that reside outside of the company's financial statements.

ESG issues vary based on the sector or company, but common themes include:

Environmental	Social	Governance
• Alignment with Paris Climate Agreement	• Human Rights	• Board of Directors Composition and Structure
• Greenhouse Gas Emissions Management	• Supply Chain Monitoring	• Executive Composition
• Energy/Water/ Waste Management	• Free, Prior and Informed Consent	• Political Lobbying Disclosure
• Single Use Plastic	• Operational Safety	• Anti-Bribery and Corruption

ESG corporate engagement is responsive to shareholders while facilitating frank discussions of investor expectations and providing feedback on specific ESG policies and practices. While ESG scores—such as those provided by MSCI or Sustainalytics—enable comparative analysis of corporate performance in each of the major categories, engagement allows us to do a deeper dive on corporate strategy and create a valuable source of qualitative information to incorporate into our investment process.

"Ultimately the purpose of corporate engagement is to create and retain shareholder value by focusing attention on significant business issues that reside outside of the company's financial statements."

FI has conducted engagement for several years now and we look forward to enhancing this element of our ESG program. This includes:

- Developing engagement plans for priority ESG issues that align with FI's top-down investment themes
- Expanding our engagement practices to collaboratively engage with other investors
- Improving systems for tracking and recording engagement activities and outcomes
- Strengthening communication of engagement themes and outcomes

At Fisher, ESG corporate engagement complements our top-down investment process and strengthens our understanding of how the companies we invest in address significant business issues. We are excited to expand this element of our ESG investment program.

WHAT IS THE OPTIMAL PROCESS FOR RESTRICTING FOSSIL FUELS?

Nurul Bachik
Portfolio Analyst

Seth Groener
Capital Markets Research Analyst

KEY POINTS

- Low Carbon and fossil-fuel free strategies are growing in demand among institutional investors.
- Opportunities exist in low-carbon investments when viewed at the top-down level.
- Thermal coal accounts for almost half of all human-made CO2 emissions.[1]
- Overly restrictive approaches to thermal coal divestments may unnecessarily limit investment opportunities.
- Restricting companies deriving more than 30% of their revenue from thermal coal removes the worst offenders while the ability to outperform over a market cycle remains intact.

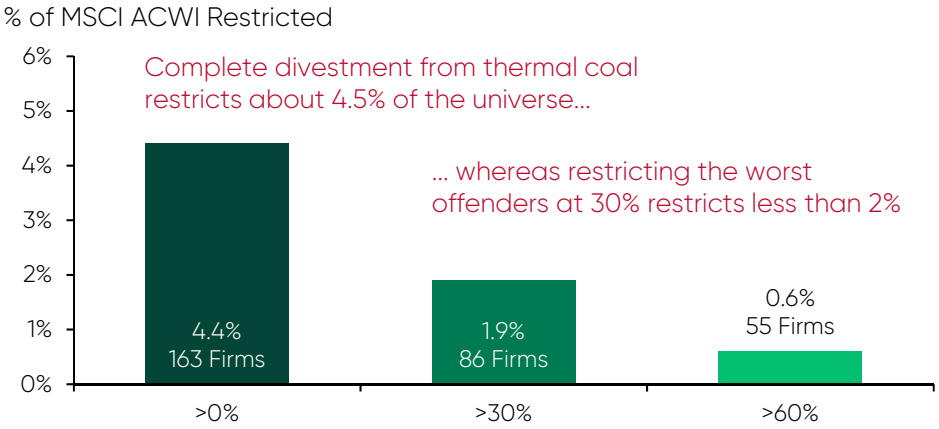
Incorporating carbon footprint considerations as part of the investment process has been led by large European Institutional Investors, but is now becoming more popular globally. Alongside traditional analysis of companies' financial statements and corporate strategy, assessing emissions data, fossil fuel exposure and clean technology exposure are now among the nonfinancial factors emphasized by investors. In particular, thermal coal (a type of fossil fuel that is burned for steam to run turbines that generate electricity) has risen to be one of the most widely criticized fossil fuel assets because it is the largest single source of global warming. The combustion of thermal coal accounts for 44% of the total manmade CO2 emissions and 29% of the total manmade greenhouse gas emissions.

For institutional investors that are facing the possibility or necessity to consider low-carbon investments, Fisher Investments (FI) recommends reducing emissions exposure from thermal coal due to its high CO2 content. While thermal coal seems to be most obvious fossil fuel of choice in reducing emissions, there are multiple ways to approach setting the thermal coal constraint. Should investors use revenue? Power generation data? Should thermal coal reserves ownership be considered in the analysis? It is also important to consider the assets and the timeframe for implementation.

"We found that restricting thermal coal based on power generation and revenue derived seems to be the most appropriate as it captures the impact of thermal coal from each dollar invested."

In order to determine the appropriate thermal coal parameters, our research group ran multiple analyses on three major indexes testing the investment impact when applying varying levels of restrictions (Exhibit 1).

EXHIBIT 1: UNDERSTANDING THE IMPACT OF THERMAL COAL RESTRICTIONS

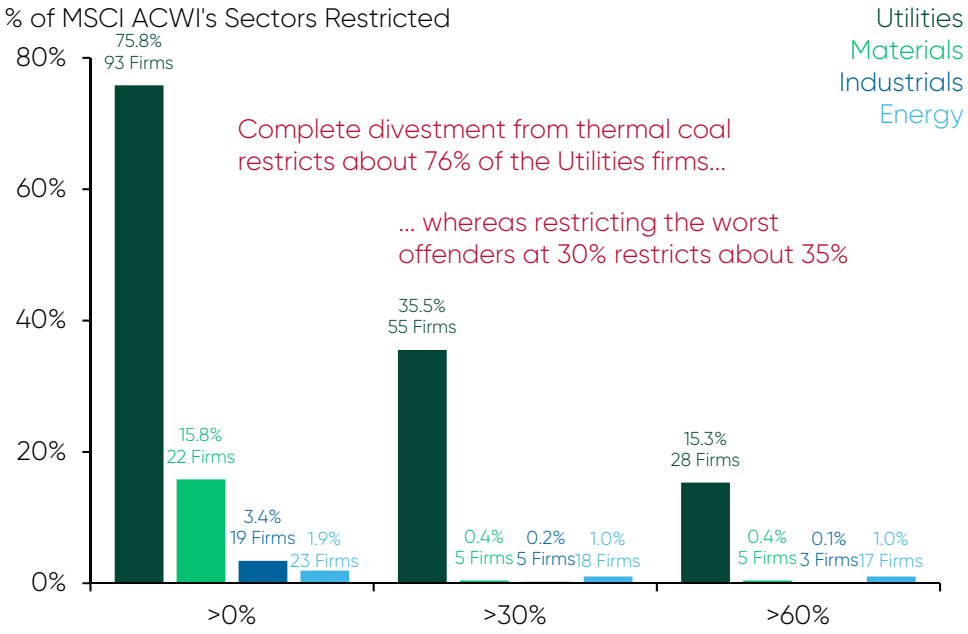


Source: MSCI ESG Research. As of November 2019.

We found that restricting thermal coal based on power generation and revenue derived seems to be the most appropriate as it captures the impact of thermal coal from each dollar invested. Further, FI believes choosing to divest at a targeted restriction level is financially more practical. It allows for flexibility to select carbon-efficient companies while reducing short-term

risks. However, the impact of various threshold thermal coal restriction on benchmark holdings are not distributed evenly across sectors. In sectors like Energy, Utilities, Materials and Industrial, the impact varies considerably depending on how the thermal coal restrictions are implemented. For example, 100% divestment from thermal coal restricts approximately 76% of the Utilities sector in MSCI ACWI (Exhibit 2). In contrast, restriction at the 30% threshold only limits about 35% of the Utilities sector.

EXHIBIT 2: STRICT CARBON RESTRICTIONS REMOVE UTILITIES FIRMS



Source: MSCI ESG Research. As of November 2019.

We recommend a 30% threshold for both thermal coal power generation and revenue derived. At this level, the worst offenders are restricted and short-term portfolio risks are limited. Additionally, this gives additional flexibility to exercise our long-term investment decision process and capture a broader exposure to innovative and sustainable companies.

Overall, the investment impact of carbon restrictions can vary considerably depending on how thermal coal restrictions are implemented. Coal divestment may affect only a few company holdings (30% threshold) or a substantial portion of a benchmark (0% threshold). Restricting companies deriving more than 30% of their revenue from thermal coal removes the worst offenders without sacrificing large portions of sector exposure.

[1] *Source: International Energy Agency. As of March 2019.*

WHAT TOP-DOWN ESG FACTORS IMPACT ALTERNATIVE MEAT?

Michael Kardalinos
Portfolio Analytics Associate

YoungRo Yoon
Securities Research Analyst

KEY POINTS

- Alternative meats are expected to grow from 1% to 10% of the $1.4T global meat market over the next 10 years.
- Alternative meats are growing significantly faster than the larger traditional meat category.
- Around 30% of US consumers plan on reducing their meat consumption, and 32% consider themselves flexitarian (semi-vegetarian).
- Due to its lower water intensity and lower Greenhouse Gas Emissions (GHGE) compared to traditional meats, alternative meat has the potential to directly contribute to Sustainable Development Goals 2, 6, and 13.
- Alternative meat is still a niche market with few pure-plays. The segment is positioned to benefit from the shift towards healthy eating, increasing environmental awareness, and concerns for animal welfare.

Consumer preferences are constantly evolving and industries have to work to stay relevant and adapt to such changes. This applies to the Food Products Industry more so than many others. The rise of alternative, primarily plant-based meat poses unique opportunities as well as challenges for new and old players in the industry. Many of these opportunities and challenges can be tied back to larger ESG trends and issues facing society.

When looking at substitutes for traditional meat, options generally fall within two categories: alternative meat and lab-based meat. Alternative meat is plant- (soy, pea, wheat, rice, etc.) based protein that mimics the taste of real meat. Currently popular brands include Beyond Meat and Impossible Burger.

For example, Beyond Meat uses pea protein and the Impossible Burger uses soy with heme (genetically engineered yeast) that imitates the taste and texture of beef.

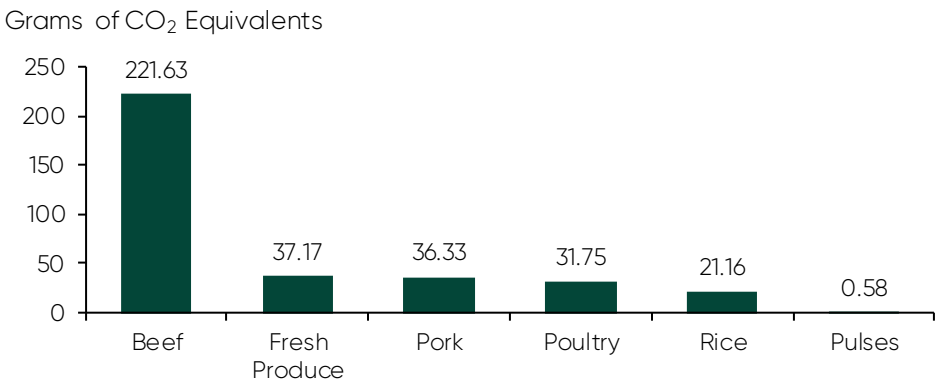
"Switching to plant-based meat alternatives could significantly reduce GHG emissions as well as society's impact on water scarcity and thus partially alleviate climate change concerns."

In contrast, lab-based meat takes live animal tissues and reproduces the cells in a tank with growth medium (a soup of nutrients that mimics an animal's body). Not only does this method currently require significant amounts of energy, it is more detrimental to the climate than traditional meat, and also faces significantly more scrutiny from regulators.

TOP-DOWN ENVIRONMENTAL CONSIDERATIONS

Agriculture and livestock are responsible for ~14% of total GHGE, and rising beef demand could add another 15% of methane and 5% of carbon footprint in the next 30 years. Global beef consumption is one of the leading environmental threats, and sustainability concerns are on the rise, especially with younger consumers. Traditional feedlot beef production is especially detrimental to the environment as it accounts for far more GHGE per gram of protein compared to grains, pulses, and other meats.

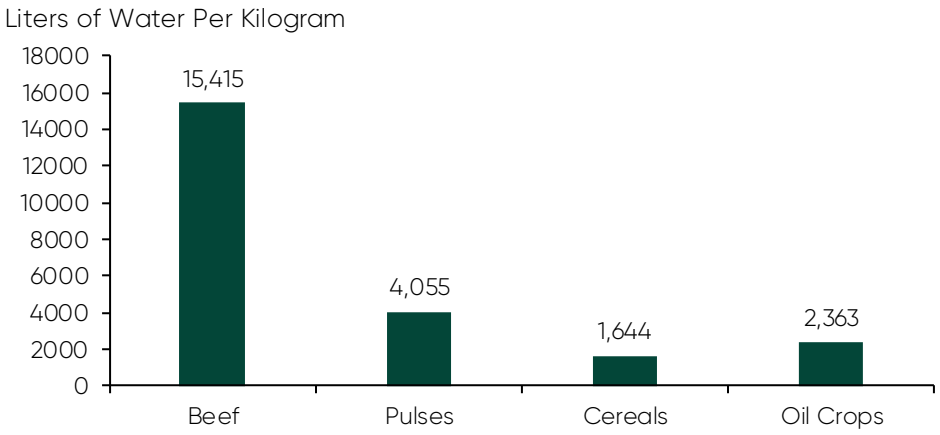
EXHIBIT 1: GREENHOUSE GAS EMISSIONS PER GRAM OF PROTEIN



Source: Clark & Tilman. As of 2017.

Further, grain-fed beef requires over 15000 liters of water to produce 1 kilogram. The vast majority of the water is used for the production of animal feed. Pulses, cereals, and oil crops (such as soy), that are often the main ingredients of alternative meats, require materially less water to produce the same quantity.

EXHIBIT 2: WATER INTENSITY OF DIFFERENT FOOD CATEGORIES



Source: Water Footprint Network. As of 2010.

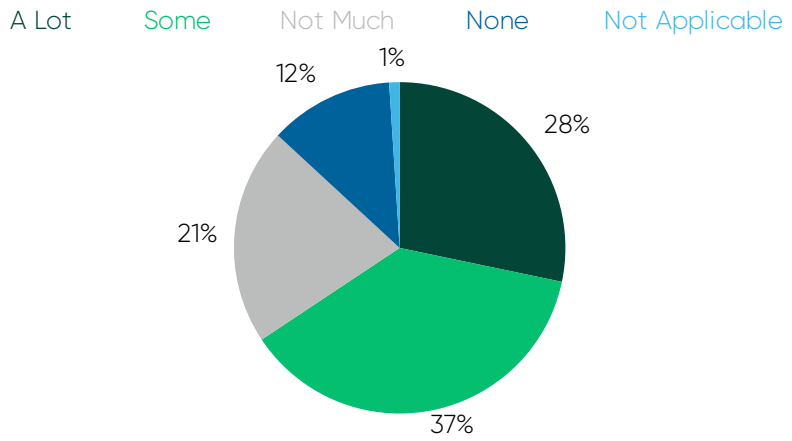
As a result, switching to plant-based meat alternatives could significantly reduce GHGE as well as society's impact on water scarcity and thus partially alleviate climate change concerns. Additionally, while consumer sentiment gradually shifts towards sustainability, companies are adding alternate meat products to highlight their environmental initiatives.

Plant-based foods can still cause significant climate stress, however, although in a different form. For instance, several alternative meat products rely on the use of palm oil, which has been garnering public attention because of illegal and unsustainable deforestation, which contributes to climate change and threatens animal habitats.

TOP DOWN SOCIAL CONSIDERATIONS

Cattle are most profitable when grown fast. This has increased controversial practices such as feeding unnatural grains (corn and soy), antibiotic use, and restrictive living conditions (feedlots) that eliminate natural grazing and produce more tender meat. Consumers around the world are becoming increasingly aware of and concerned with such practices and issues regarding animal welfare in general.

EXHIBIT 3: CONSUMER ATTENTION TO ANIMAL WELFARE LABELS



Source: Animal Welfare Institute. As of 2018.

Further, plant-based meat is well-positioned to benefit from a global trend towards healthy and socially-conscious eating. Red meat generally has more saturated fat, which contribute to higher blood cholesterol and higher risk of heart disease. Around 30% of US consumers plan on reducing their meat consumption, and 32% consider themselves flexitarian (semi-vegetarian).[1]

There may be potential downsides to plant-based meats. While, alternative meat has zero cholesterol, it has 5 times more sodium for preservation and flavor. Further, taste and price are still the leading drivers of consumer purchase, rather than health, and both Beyond Meat and Impossible Burger currently cost more than standard ground beef.

INDUSTRY DEVELOPMENTS

The alternative meat segment is comprised of smaller and less established pure plays (such as Beyond Meat and Impossible Burger), as well as large conglomerates newly entering the space (such as Kellogg, Nestle, and Tyson Foods). This space has seen and should continue to see significant investments, led by start-ups, mainstream food companies and restaurants.

In response to shifting consumer sentiment, an increasing number of US burger chains have started to offer meatless burgers in order to attract younger diners who prioritize sustainability and health. 15% of US burger chains are currently offering meatless alternatives, up from 3% in 2018.

However, while pure plays are garnering most of the media attention in recent months, they may not be the biggest beneficiaries from a potential shift in consumer tastes, and established firms could end up being the biggest winners. Considering existing advantages—e.g., infrastructure and production capabilities—the best way to benefit from a potential mock meat shift might be to own traditional food products companies.

[1] *Source: "Can plant-based meat grow from a $1 billion industry to a $20 billion industry?," Adele Peters, Fast Company, 05/13/2019. https://www.fastcompany.com/90347902/can-plant-based-meat-grow-from-a-1-billion-industry-to-a-20-billion-industry*

ARE ESG SCORES A NEW MEASURE OF QUALITY?

Timothy Schluter
Capital Markets Research Analyst

Zoe Abbott Boyd
ESG Program Manager

KEY POINTS

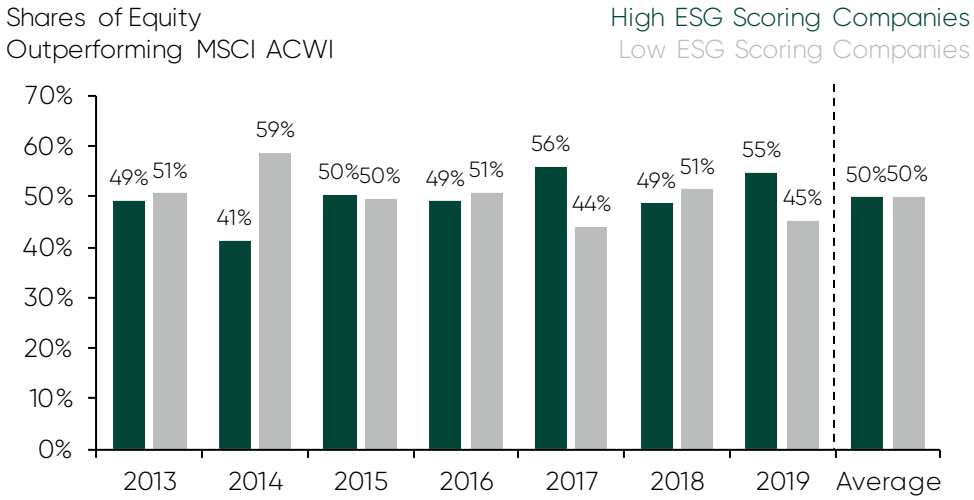
- Investors' prefer lower-quality and lower ESG-rated securities early in bull markets and higher quality and higher ESG-rated companies as bull markets mature.
- Interpreting and integrating ESG scores differently and more effectively than other investors may produce capital market technologies with actionable portfolio management implications across a variety of investment strategies.
- We believe there is growing opportunity for ESG scores as a non-financial measurement of quality.

One long-running tenet of FI's investment philosophy holds that long-term success requires interpreting information differently—and more correctly—than the vast majority of investors. We believe ESG scores open a new avenue on this front. ESG scores are calculated from security factors that widely-used financial statements don't easily capture.

There is a vigorous debate occurring in the investment community about whether highly rated ESG firms may provide durable risk reduction or alpha generation opportunities over time—with most findings being somewhat underwhelming or inconclusive (Exhibit 1).

"Our research shows that markets favor different characteristics at different points in the market cycle. We think ESG quality should be no different."

EXHIBIT 1: HIGH OR LOW ESG SCORES ARE UNLIKELY TO PRODUCE DURABLE ALPHA GENERATION



Source: FactSet and MSCI ESG Manager. As of December 2019. "High ESG Scoring Companies" is a company with a total ESG score above 7. "Low ESG Scoring Companies" is a company with a score below 3. Outperformance is based on total returns higher than the MSCI ACWI.

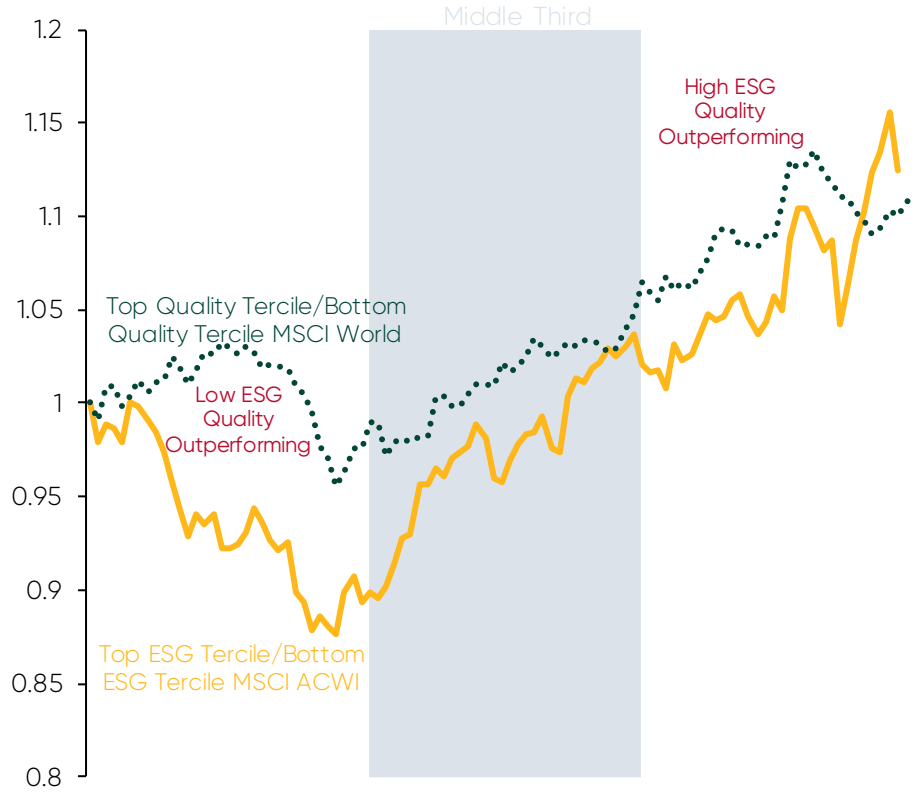
However, this may be the wrong question to ask, as it presumes there is one superior investment characteristic or style throughout a market cycle. Because markets deal efficiently with widely known information, including leadership trends, it seems unlikely any one category or characteristic of stocks would provide enduring superior risk-adjusted returns for a long, uninterrupted stretch. Such advantages tend to get priced in relatively quickly.

Our research shows that markets favor different characteristics at different points in the market cycle. We think ESG quality should be no different. Our prior studies on quality—which we define using measures of return on equity, earnings variability and debt-to-equity ratios—indicate investors' prefer lower-quality securities early in bull markets and higher quality as bull markets mature. Further, we noticed our proprietary measurement of quality correlated particularly well with MSCI ESG scores in Emerging Markets. EM

companies with higher quality exposures—via Return on Equity, Earnings Variability and Debt to Equity—tend to have higher ESG Scores.

We saw this as a unique opportunity to merge these two concepts in an effort to use ESG scores as a non-financial measurement of quality. We analyzed the relative returns of MSCI ACWI constituent stocks by ESG score in this bull market, as ACWI constituents are normally distributed across ESG scores. An ESG quality index comparing the relative returns of the best third (high quality) of ESG scores against the bottom third (low quality) showed promising results: Low quality outperformed early on, while high quality outperformed thereafter—just as we would expect (Exhibit 2).

EXHIBIT 2: COMPANIES WITH HIGH ESG SCORES AND QUALITY EXPOSURE UNDERPERFORM EARLY AND OUTPERFORM LATE



Source: ClariFI and MSCI ESG Research.

The results invite further analysis of ESG data as an alpha-generation source. Unfortunately, ESG scoring data is limited to this current bull market, so it is difficult to know whether these quality trends produced similar results in prior cycles. But at the bare minimum, we think these results are an encouraging start to the incorporation of non-financial quality measures in security selection for alpha-generation purposes.

HOW CAN WE BALANCE ESG AND PERFORMANCE GOALS?

Matt Simpson
Capital Markets Innovation Research Analyst

Year to date, ESG criteria had a modest impact on stock performance, with only a 0.58% marginal difference in returns of our MSCI World ESG Index and the standard MSCI World Index. Despite minimal performance deviation, 13% of the MSCI World is screened out based on Fisher Investments ESG criteria.

While any outperformance is noteworthy, it's important to differentiate what this means and what it does not (Exhibit 1).

EXHIBIT 1: ESG CRITERIA MINIMALLY IMPACT YTD PERFORMANCE

Source: FactSet. As of October 2019.

WHAT PERFORMANCE DEVIATIONS MEAN

This slight performance dispersion gives us some insight towards ESG-specific trends. In looking at categorical restrictions, we see that restricting exposure to war-torn Myanmar and companies subject to controversies helped. On the other hand, companies with stricter labor rights and lack of weapons exposure detracted from relative performance to the benchmark. Notably, MSCI controversies and failure to comply with the UN Global Compact were among the top contributors to performance (Exhibit 2). As these are broad assessments, a company can be flagged for violating these criteria for a number of reasons, making this a powerful, though non-specific tool to measure equities with.

EXHIBIT 2: ESG FACTORS CONTRIBUTION TO RELATIVE PERFORMANCE

Performance Detail	
ESG Criteria	0.23%
Weighting*	0.35%
Restriction	**Effect**
Myanmar (Burma) Exposure	0.12%
MSCI Controversy	0.11%
GMO	0.08%
Coal Power	0.06%
Uranium Weapons	-0.01%
Nuclear Weapons	-0.04%
Labor Rights	-0.07%
Child Labor	-0.09%
Weapon	-0.09%

**Removing ESG non-compliant securities causes fewer securities in the ESG Index, increasing weights per ESG compliant position.*
Source: MSCI ESG Manager. As of October 2019.

The performance dispersion is largely driven by relative weighting. For example, Wells Fargo was assigned an MSCI Controversy surrounding its creation of false accounts and returned only 15% this year, underperforming the World's 21%. Excluding it helped the ESG Index, assigning positive relative performance to our MSCI Controversy category.

Continuing to study these effects, and tracing them to underappreciated fundamentals may reveal both headwinds and tailwinds for stock performance that we can apply to our top-down management.

EXHIBIT 3: ESG SCREENS OUT 13% OF CONSTITUENTS

Sectors	Original Weight	Removed Weight
Consumer Staples	8.6%	3.7%
Industrials	11.2%	2.8%
Energy	5.0%	1.4%
Utilities	3.5%	1.4%
Financials	15.7%	1.2%
Consumer Discretionary	10.5%	0.9%
Materials	4.4%	0.8%
Health Care	12.7%	0.7%
Information Technology	16.7%	0.1%
Real Estate	3.4%	0.0%
Communications	8.4%	0.0%
Total	-	12.9%

Source: FactSet and MSCI ESG Manager. As of October 2019.

WHAT PERFORMANCE DEVIATIONS DO NOT MEAN

Defining performance is insightful, but there's no way to guarantee always beating the market, ESG included. The performance effect assigned to our restrictions cannot be taken without additional context. For example, taking a closer look at restricting exposure to Myanmar shows a performance dispersion driven largely by Chevron and Total. Two energy companies – the worst performing sector this year. And to complicate matters, energy hasn't only had losers; Hess Corporation, for example, returned over 60% in 2019. Are Chevron and Total underperforming because they are behaving like most of their energy peers, or is there something in particular about business dealings in Myanmar that affects performance? It's hard to say, but this particular analyst looks forward to continually asking and answering these difficult questions, finding capital markets technologies that add value to ethically-minded investors.

FISHER INVESTMENTS ENVIRONMENTAL STEWARDSHIP

WHAT IS THE FISHER INVESTMENTS GREEN TEAM?

Kate Sibley
Request for Proposal Team Leader

HOW CAN FISHER INVESTMENTS IMPROVE OUR ENVIRONMENTAL IMPACT?

- Building energy efficiency
- Campus environmental preservation
- Employee environmental engagement
- Business meeting sustainability

As a firm, Fisher is looking for ways to promote our green values both internally and externally to support our ESG efforts. The Fisher Green Team is a group of volunteer employees from throughout the firm who have been tasked with answering the following opportunity statement – How can Fisher Investments improve our environmental impact? In other words, how can FI focus on the "E" in ESG, both in our company, on our campuses and amongst our employee base?

The Green Team was first chartered with brainstorming potential "green ideas" big or small. The team was given about a month to research and gather as many plausible ideas as possible, and then presented them to a panel of Executive Vice Presidents (EVPs)– Justin Arbuckle, Lane Jarvis, and David Watts.

The result was four 'buckets' of ideas presented to the panel of EVPs, breaking down implementation into short, medium and long term stages. The Green Team pitched over twenty-five ideas in the following categories: building improvements, sustainability initiatives for campus buildings, human capital, and client and prospect meetings.

Our progress on our sustainability initiatives will be reported in 2020.

Fisher Creek 2 is one of the most energy-efficient commercial buildings in the surrounding Clark County, WA area, with self-dimming sustainable lighting and customized windows to reduce the energy used for heating/cooling.

HOW ENVIRONMENTALLY FRIENDLY IS FI'S WA HEADQUARTERS?

Meagan Young
Institutional Program Manager

Natalia Halska
Materials Production Team Leader

MEASURING THE ENERGY EFFICIENCY OF OUR OFFICE BUILDING

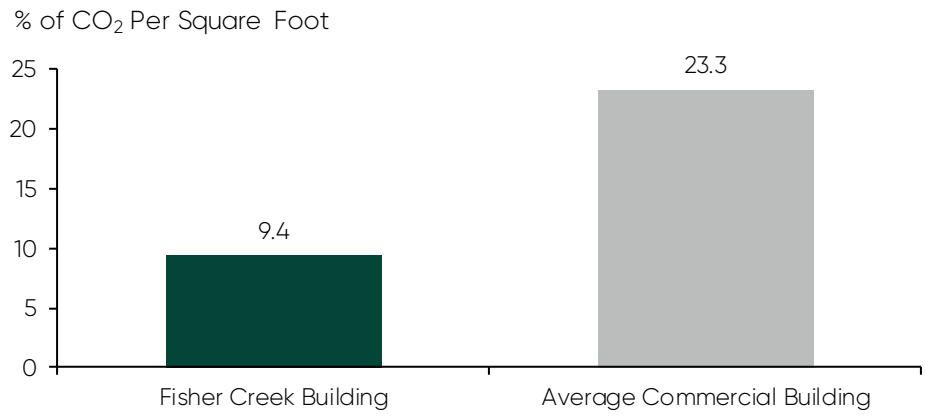
Recently, the Green Team conducted an Energy Star benchmark for the Fisher Creek 2 (FC2) building – where our institutional department resides in our Camas headquarters. The Energy Star benchmark uses the EPA's energy performance scale to assess building energy performance and track savings over time. For those not familiar with Energy Star benchmarking, it is a ranking system offered by the Environmental Protection Agency (EPA) that compares similar commercial building types across the nation and ranks them on a scale of 1 – 100. The score helps building owners and operators understand how energy efficient their buildings are in comparison to peers across the nation and establishes a baseline of performance that can be used in the future to measure the impact of any improvements that are made to the facilities. Buildings that score a 50 are considered average performing and those that score a 75 or greater are considered energy efficient and able to be certified as such. After collecting 13+ months of utility bills and specific building characteristics FC2, the Green Team was able to associate an Energy Star score of 94 for FC2 (Exhibit 1).

WHY IS OUR BUILDING'S ENERGY EFFECIENCY IMPORTANT?

As a firm, we are looking for ways to promote our green values both internally and externally to support our ESG efforts. By reducing overall energy consumption in a building where energy is the single largest controllable operating cost, we have the potential to reduce the carbon footprint the buildings make on the environment.

"After collecting 13+ months of utility bills and specific building characteristics for the Fisher Creek 2 building, we calculated an Energy Star score of 94."

EXHIBIT 1: ACCESSING OUR CARBON FOOTPRINT



Source: Energy Star Portfolio Manager Software Program and BuildingAdvice Software.

IMPROVING THE SUSTAINABILITY OF OUR PRINTED MATERIALS

In an effort to be as environmentally conscious as possible with the materials used throughout our ESG meetings:

- We have made iPads available for institutional meetings to mitigate printed materials.
- While we use recycled paper (10% recycled) for all materials, we have used paper composed of a higher percentage (30%) of recycled materials for ESG materials since 2017.
- In an effort to work with companies that protect the rights of their employees, we have also chosen to work with a unionized vendor to print our ESG paper.
- We use double-sided printing for ESG materials to reduce the size and weight of paper ESG books.

ENVIRONMENTAL STEWARDSHIP AT FISHER

Our firm's dedication to sustainability can be seen in the 2010-2014 construction and development of our Camas, Washington corporate campus. A key goal during the development process aimed was preserving and enhancing the existing wetlands and natural habitat.

DURING THE CONSTRUCTION OF THE FISHER CREEK CAMPUS

- Preserve and Enhance over 130 acres of on-site wetlands[1]
- Planted over 5,000 wetland plants and 2,000 shrubs during development
- Planted over 400 trees while clearing fewer than 40 in order to prepare the land for development

Wetlands on the Fisher Creek campus

[1] Enhancement includes increasing the water flow through the wetlands, allowing water to flow freely under our roads, enlarging ponds, and planting indigenous wetland plants that would preserve the wetland, while also encouraging wildlife and fauna.

ENERGY EFFICIENCY OF CAMAS OFFICE BUILDINGS

- The most energy-efficient commercial building in the surrounding Clark County, WA area.[2]
- Equipped with a computer system that tracks all power consumption.[3] Self-Dimming Sustainable Lighting: System controls shut lights off in unused conference rooms and adjusts the brightness of internal lighting so that areas near windows that require less light, receive less light.[4]
- Features customized windows that reduce solar heat and lower power usage for heating/cooling, and feature HVAC systems that use only outside air 80% of the time to provide cooling.
- Storm water handling system that purifies water from the parking lots and the roads, through natural bioswales and large filters.[5]

Fisher Creek campus

[2] According to Clark Public Utilities who gave Fisher Camas buildings a 100% efficiency rating.
[3] The building has "smart" cooling and heating systems that learn through experience. The system is zoned on every floor so that heating and cooling of each zone maintains consistent temperatures throughout each floor.
[4] Self-Dimming lighting system maintains consistent and balanced lighting on the floors. This process of adjusts every 3 minutes and is gradual and unnoticed by the naked eye.
[5] There is no city storm sewer system for rain water runoff in the local area. In fact, water from Pacific Rim Boulevard and adjoining properties; actually drain onto the Fisher Camas Creek property. After purification the system feeds the retained water into ponds that then control water release into Fisher Creek.

HOW CAN WE MAKE BUSINESS TRAVEL MORE SUSTAINABLE?

Zoe Abbott Boyd
ESG Program Manager

FISHER INVESTMENTS CARBON OFFSET INITIATIVE

Carbon offsetting is a method designed to lighten the impact of greenhouse gas emissions that result from the use of fossil fuels by reducing emissions from another source.

We purchase carbon offsets for each mile flown during Fisher Investments Institutional travel. Carbon offsetting allows us to experiment with ways of counterbalancing the carbon emissions generated from Institutional employees' travel by contributing to emission reduction projects focused on energy efficiency, production of renewable energy, forest conservation and avoided deforestation.

United Airlines partnered with Sustainable Travel International to develop their carbon offset program. Sustainable Travel International has a policy of only selecting carbon offset projects that have obtained independent third-party verification and are registered with long-standing and well respected carbon quantification protocols.

SUSTAINABLE TRAVEL INTERNATIONAL™
Leave the world a better place®

UNITED AIRLINES

2018 CARBON OFFSET PROJECTS SUPPORTED[1]

Capricorn Ridge Wind Farm

The Capricorn Ridge Wind farm is located in west central Texas and is comprised of over 400 wind turbines. Support of Capricorn Ridge Wind Farm helps to displace fossil fuel based energy with clean, renewable wind power.

The wind farm produces enough wind based electricity to:

- Power approximately 220,000 homes annually
- Facilitate the reduction of more than 952,000 metric tons of annual greenhouse gas emissions—equivalent to taking approximately 186,000 cars off the road

The Capricorn Ridge Wind Farm is an independently verified carbon offset project registered with the Voluntary Carbon Standard.

Alto Mayo Conservation Initiative

The carbon pollution generated from burning and clearing tropical forests is comparable to the greenhouse gas emissions from all of the world's cars, trucks, and planes combined. The Alto Mayo Conservation Initiative works to restore and protect 450,000 acres of the Alto Mayo Protected Forest, thereby reducing tropical deforestation in the San Martín region of northern Peru – an area twice the size of New York City.

The goal of the Alto Mayo Conservation Initiative is to:

- Provide sustainable economic opportunities to local families in the area
- Protect a critical watershed that supports the 240,000 inhabitants of the Alto Mayo Basin
- Protect the Alto Mayo Protected Forest (home to over 1,000 unique species)

Currently more than 200 local families have pledged not to cut down the Alto Mayo's trees, in return for agricultural training and related benefits. For example, local community members have already benefitted from technical assistance and training in organic coffee production.

The Alto Mayo Conservation Initiative project was successfully validated under the Verified Carbon Standard and the Climate, Community and Biodiversity Standards through an independent audit of the project's design and methodology.

[1] *Source: US Environmental Protection Agency and Sustainable Travel International*

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