ROCKEFELLER
ASSET MANAGEMENT

MID-YEAR REPORT 2023

Shareholder Engagement

At Rockefeller Asset Management, engagement with companies is focused on alpha and outcomes.

THE FOUR STEP PROCESS

1 **Step 1:** Constructive Dialogue

2 **Step 2:** Official Letter

3 **Step 3:** Collaborative Action

4 **Step 4:** Shareholder Resolution

In particular, we believe it is critical to differentiate engagement from the research and information gathering dialogue that is part of fundamental analysis. Our engagement is underpinned by in-depth company, sector, and issue analysis – a resource-intensive process that leverages our Rockefeller network. Our four-step process seeks to encourage change from investee companies that we believe will enhance long-term shareholder returns *and* catalyze positive change. Our engagement analysts work closely with the fundamental analysts throughout the holding period to seek change from companies to manage unattended risks and capture opportunities.

In early 2023, we outlined five priorities to help facilitate this process. To date, constructive dialogue has primarily concentrated on human capital management, circularity (including plastic pollution), and implementing climate ambitions. For the second half of the year, we plan to expand our existing engagement related to biodiversity and human rights.

2023 ENGAGEMENT PRIORITIES

Human Capital Management	Circular Economy and Waste Reduction	Implementing Climate Ambitions	Biodiversity	Human Rights

Mid-year Engagement Initiatives

- We signed onto an Investor Statement on Plastics, organized by VBDO, demonstrating our commitment to reducing single-use plastic production and resulting plastic pollution, and enablement of a more circular economy supported by an ambitious policy environment.
- We were chosen to provide feedback to and test the tenets of the UNEP FI's Sustainable Blue Economy Finance Initiative (SBEFI) and their Methodology for setting targets in the Sustainable Blue Economy. In this work, we represent the perspective of asset management firms who are signatories to the UNPRI.
- We held nearly 50 human capital focused engagements, as we believe sound management of human capital is crucial for companies to execute strategy, especially in the face of limited talent pools and intense competition for talent.
- We have been active in the Valuing Water Finance Initiative. This group of 90 institutional investors convened by Ceres engages companies with high water footprints to value and act on water as a financial risk, and drive the necessary large-scale change to better protect water systems. Efforts have focused on demonstrating water is a financially material risk, shadow water pricing, and how companies must adapt to mitigate water risk.
- We became members of UNPRI's Circular Economy Reference Group, where we will identify priority value chains for circular economy initiatives in a collaborative setting. This is a second iteration of the Plastics Working Group, of which we were also active participants.

NEW CASE STUDY

Earlier this year, we published a case study of our long-term engagement with Waste Management, Inc. This illustrates the positive influence we have demonstrated through our constructive and consultative efforts, as well as the company's willingness to change. Click here to access the case study.

Engagement Overview

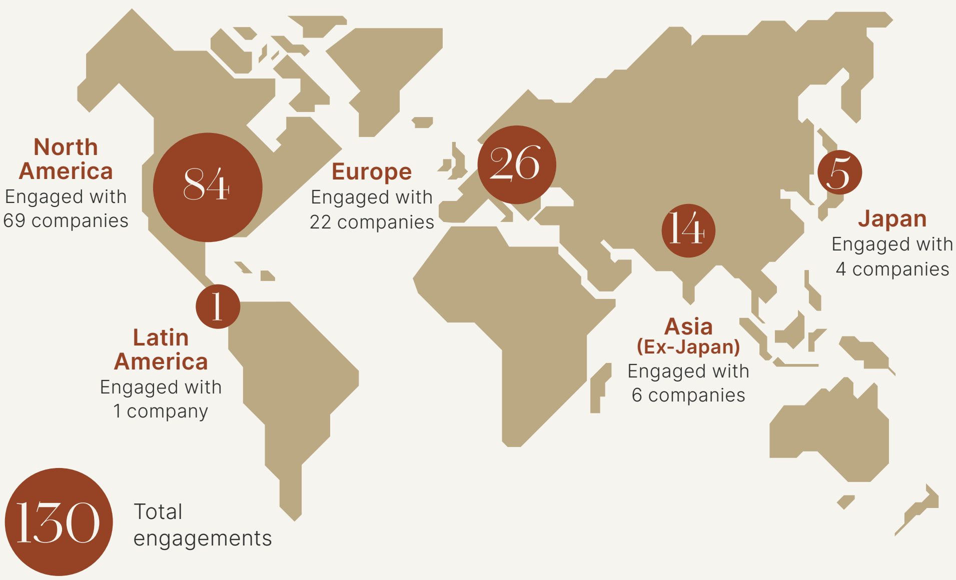
SUMMARY

102
Companies Engaged

69%
% of Engagements with Company Leadership

89%
% of Engagements Involving RAM Equity Team

GEOGRAPHY OF 2023 COMPANY ENGAGEMENTS

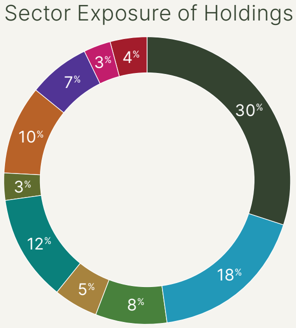


NATURE OF ENGAGEMENT

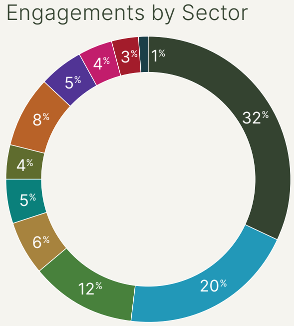
34% ESG Strategy	27% Risk Mitigation	21% Disclosure	18% Business Opportunity

SECTORS

Sector Exposure of Holdings



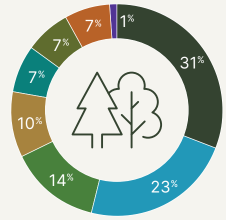
Engagements by Sector



- Industrials
- Financials
- Consumer Staples
- Materials
- Health Care
- Communication Services
- Information Technology
- Consumer Discretionary
- Utilities
- Energy
- Real Estate

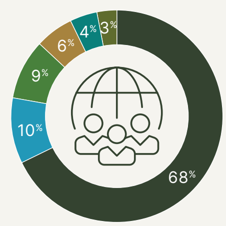
As of June 30, 2023

THEMATIC FOCUS



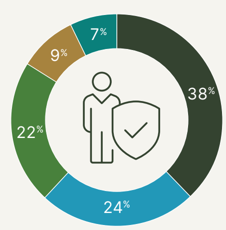
Environmental
160

- Climate (transition)
- Environmental product innovation
- Ecosystem services, biodiversity
- Waste management, pollution (air, hazardous)
- Plastic
- Climate (physical)
- Water
- Raw material risk



Social
69

- Human capital management (talent, diversity)
- Product quality, safety, responsible products (stakeholder)
- Privacy and data security
- Access and new opportunties
- Work health safety (employees, contractor)
- Human rights (labor relations, community relations)



Governance
45

- Board
- Compliance and ethics
- Executive compensation
- Shareholder rights
- Political activity, lobbying

Strategy in Focus: Rockefeller Small Cap ESG Equity

“Exciting,” “Innovative,” and “Nimble” are words small cap portfolio manager, Jason Kotik, uses to describe the holdings in his strategies. Unbeholden to bureaucracy of many larger companies, small caps have the opportunity be on the forefront of innovative technology and business practices as they develop their operating models. We find these companies to be compelling given their flexibility, ability to innovate, and capacity to reframe objectives to achieve specific goals. With our commitment to constructive engagement, we have an opportunity to work with management teams on the optimal way forward.

QUALITY BUSINESSES WITH STRONG MANAGEMENT TEAMS ARE THE BASIS FOR SUCCESS

We are drawn to higher quality small caps that our research shows have the potential to outperform. We define these as companies with healthy balance sheets, high returns on invested capital, consistent free cash flow, sustainable operating margins, and low financial leverage. We also favor companies with track records of internally generated cash flow and prudent reinvestment in their business. While these stocks may not tend to achieve the share price gain of a biotech company that receives an approval of a breakthrough drug for example, they typically outperform lower quality “non-earners” over time. Higher-quality stocks can also offer a degree of downside protection, as they tend to have less debt, better cash flow, and are more diversified—potentially offering a buffer during economic downturns and periods of market volatility.

ESG INTEGRATED INVESTING PROVIDES A MORE COMPLETE DEPICTION OF A COMPANY

While a traditional investment strategy may look only at the fundamental thesis, we believe this does not provide a comprehensive assessment of a company’s risks and opportunities. Some may think of ESG as a check-the-box exercise. Our approach, however, is steeped in decades of expertise in ESG research and engagement, which has led to an equity research team that is fully ESG-integrated. At Rockefeller Asset Management, we use our proprietary materiality map as a basis to determine what is financially material to businesses over the long run. This supplements our analyst overlay and quantitative analysis through our Rockefeller ESG Improver Score (REIS).

ACTIVE OWNERSHIP REQUIRES CONSTRUCTIVE ENGAGEMENT

As long-term, active shareholders, our due diligence does not stop after we invest in a company. As a complement to our fundamental analysts' stock maintenance work, our shareholder engagement team discusses material issues and opportunities with our investee companies in a constructive, consultative manner. Since many of our small cap companies are at the beginning of their sustainability journey, their disclosures are less detailed than what we may see at a large cap company. This means that the company could in fact be tackling these issues internally – as is the case with many smaller-cap issuers – but not yet begun publicly disclosing their efforts. The resulting information gap between internal company processes and the market's perception of those processes can subsequently lead to a company being undervalued. Our open, constructive dialogue provides an opportunity for companies to explain their initiatives and draw from our ESG expertise to guide them through next steps.

When initiating engagement, we look at the fundamental and quantitative assessments (REIS) of the company. This ensures we have a clear picture of the business and any current sustainability initiatives. Because these companies have limited

Our open, constructive dialogue provides an opportunity for companies to explain their initiatives and draw from our ESG expertise to guide them through next steps.

resources, we specifically tailor our engagements to fit in with the needs of the organization. We consider our process of working with our small cap investees as pro-bono consultative conversations, and encourage them to view our team as an extension of their own. This allows companies to leverage us as a resource, build trust, and begin the process of tackling issues that are material to their business. Moreover, companies led by quality management teams are eager to do well in this area and can pivot more easily than larger companies.

Consider one of our main priorities for the year: human capital management. For small cap companies, it is imperative that we prepare for meetings by benchmarking peer performance for an accurate picture of best practices, real world examples, and potential externalities. Determining the health of a small cap company's human capital program is essential to the longevity of the business. If employees are unhappy and turnover is high, a small cap company will need to continually use precious resources to search, hire, train, and offboard. This is a financially material risk for companies of any size, but small companies assume more risk and may need to put in more effort to attract and retain top talent.

After our initial conversations with a management team, we establish engagement targets. These are related to material issues and opportunities specific to the company. We believe that if the company executes on the initiatives we recommend, they will realize higher financial returns over the long term.

Engagement Highlight: Ocean Health

We maintain a strong focus on ocean health. Pollution of marine environments, carbon emissions, and conservation efforts are top priorities for our engagements with companies exposed to these risks and externalities. This year we have engaged with companies on the following topics:

- Increasing sustainability initiatives at port companies to create a greener maritime industry. This includes shore power electricity at ports to prevent ships from idling on fossil fuels while a berth, as well as allocating capital toward electrification and automation of equipment to further reduce emissions.
- Imploring companies in the fisheries industry to exit participation in wild caught seafood that is classified as endangered species, as determined by the IUCN's Red List.
- Promoting the emerging science surrounding recycled plastics related to both potential toxicity of food grade recycled content, as well as pollution that occurs as a result of recycling processes. We encourage exposed companies to respond proactively to this accumulating research.

To add depth to our research and engagement, we have started an initiative with our research partner, The Ocean Foundation, to publish engagement briefs and position papers on relevant topics. This is especially critical for those issues that are less understood, or are complex and require a nuanced approach to engagement. As an example, please see our Seafood Traceability engagement brief published earlier this year.

The plastics crisis is truly multifold and will continue to bear its challenges from an engagement perspective.

SPOTLIGHT ON PLASTICS

As part of our focus on the oceans, we maintain strong engagement on the topic of plastics. Emerging scientific research shows the negative implications of plastics for our environment and health including accumulating research related to recycled plastics and recycling processes. These efforts on which investors have long encouraged progress are starting to come under question. As such, we believe there is a heightened need for the industry to better understand the environmental and health implications of microplastics that result from mechanical recycling processes, and the potential toxicity of recycled plastics in food grade products. Our focus is to communicate our findings and concerns to companies exposed to the plastics value chain and to get a better understanding of how they are keeping a pulse on these issues, how they are lobbying for or against ambitious policies related to plastics, and how they intend to manage for potential unintended consequences of sustainability initiatives and investments. Investors, likewise, face a complex web that requires proximity to and navigation of the emerging science and consequent evolving regulatory environment.

As noted in our 2022 Annual Report, we continue to be involved in the Business Coalition for a Plastics Treaty that seeks to provide a holistic business perspective in the ongoing negotiations for a Global Plastics Treaty. Additionally, this year we were happy to be approached to sign an investor statement on plastics, organized by Dutch investors, VBDO, and supported by investors representing ~US$10 trillion in assets under management. This recommended urgent action to reduce dependence on single-use plastics packaging, and to facilitate progress toward a more circular economy. To make the most of this collaborative effort, we have initiated our own campaign targeting investee companies exposed to the plastics value chain. Our campaign will consist of tailored letters to companies that take into consideration company-specific idiosyncrasies, as well as follow-up dialogue to collaborate with companies on these issues.

The plastics crisis is truly multifold and will continue to bear its challenges from an engagement perspective. The evidence is growing of the increasing financial risks to companies and investors as the issue rapidly evolves. This includes regulatory risks, reputational costs, extended producer responsibility associated costs, potential for litigation, and raw material costs, as noted in the investor statement. Companies must focus on credible solutions that are centered around reduction of unnecessary single-use plastic packaging, management of unintended pollution stemming from recycling processes, elimination of hazardous additives, and promotion of more circular economy and innovative business models.

ROCKEFELLER
ASSET MANAGEMENT

Uniquely Rockefeller opportunities await.

Visit rcm.rockco.com/ram to learn more.

Small capitalization stocks generally involve higher risks in some respects than do investments in stocks of larger companies and may be more volatile.

Investing involves risk, including risk of loss.ESG investing refers to an investment approach that incorporates ESG criteria into the investment process. This approach is subjective by nature, and there is no guarantee that an ESG investment approach will be successful or that it will reflect the beliefs or ideals of any one particular investor. ESG market data is limited and much of the data is unstructured and reported in varying increments and timetables. While we endeavor to obtain and analyze relevant ESG market data, there is no guarantee that we will be successful in these efforts. ESG investing can also limit the investment opportunities available to a portfolio, such as the exclusion of certain securities or issuers for nonfinancial reasons and, therefore, the portfolio may perform differently than or underperform other similar portfolios that do not apply an ESG criteria to their investment approach.

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