2015

ANNUAL REPORT

ROCKEFELLER & CO.

Global Sustainability and Impact

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INTRODUCTION & FOREWORD

Sustainability and Impact

"Gathering the Strands"

Rockefeller Asset Management (a division of Rockefeller & Co., Inc.), through its Sustainability and Impact Investment Group, seeks to invest with a sustainability lens as well as for impact. We select companies for inclusion by integrating financial and sustainability analysis. We define sustainability as company practices that help address social and environmental issues (i.e., being part of the solution rather than part of the problem). It is a mindset that integrates social, environmental and governance issues into the way a company is managed and an investment portfolio is constructed. It is about focusing on the long term and understanding that we live in an interconnected world. As a result, we believe taking account of the future from a financial, social and environmental point of view is an important stewardship ingredient of sustainability investments. It is about the responsibility that investors have of being intentional and paying attention. Sustainability is about disciplined and mindful processes rather than outcomes.

> We define sustainability as company practices that help address social and environmental issues.

The Six Pillars

Our activities fall into four categories: Gathering information about companies and potential issues, rigorous research into companies' practices, assessment of these practices, and engagement with companies with the intention of improving their impact.

Our assessment of companies is based on our Six Pillars of Sustainability and Impact (S&I): Corporate Governance, Products & Services, Workplace Management, Environment, Community Issues, and Human Rights.

In this report we will review some of the activities in which the Sustainability and Impact Investment Group participated during 2015, including dialogues with companies and collaborations with other investors. A major goal of these activities is to improve and deepen our knowledge and understanding of companies' practices and issues.

Our Approach

A certain degree of confusion surrounds Sustainability and Impact investing. For example, it is not always clear what qualifies as Sustainability and/or Impact investing, and why. Nor are goals and intended outcomes always clearly defined. The confusion is understandable as many definitions are being offered; some of these are broad while others are narrow, some contradict each other while others overlap. In all the definitions, there are numerous strands being referred to, which is why we have chosen to call this note "Gathering the Strands." Our aim is to describe our definition and our view of the strands with the goal of giving you an understanding of the whole "bouquet." We chose this analogy with the full knowledge that all analogies "limp" and are therefore never perfect but can be useful illustrations. In this case, we offer a concept of what we believe to be sustainability investment, or sustainability business practices: the concept of "wholeness." As with a bouquet, it is the "whole" that matters but each component or "flower" needs to stand on its own and play a vital role in the creation of the whole.

We plan to elaborate on each strand separately in the coming year, but here we want to emphasize the goals and approach we are trying to achieve with the whole. In the analogy of the bouquet, the whole would constitute characteristics like "airiness" or "vibrancy of colors" or "harmony of color." Given the scope of our subject, this discussion is only a first step.

Considering that both investments and business are considered tools and important aspects of capitalism and that capitalism has come under fierce criticism of late, especially for its perceived role in global inequality, we would like to start there and call that "back to basics." Most of today's commentators, whether friend or foe of capitalism, tend to note that the inequality we are

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witnessing in our global society is an inevitable result of capitalism. Furthermore, they say that it is in the very nature of capitalism and that its natural rules can lead not only to extremes of economic inequalities, but also to a disregard of the negative impacts it has on society at large.

In a sound economic system, increasing and improving the well-being of society as a whole should be a goal of business and investments. That is one of our definitions of Sustainability and Impact investment. Among the tasks and characteristics of sustainability investors are the need to assess the impact of their investments on society and the desire to seek positive outcomes. Positive social outcomes involve a number of strands, including employees and workplace issues, the impact of products and marketing, relationships with communities and considerations and respect for human rights.

We believe that sustainability investors have other important characteristics. For example, they are "active investors," meaning they engage with investee companies with the aim of monitoring and seeking improvement in a company's practices that affect society, the natural world and the company's financial performance. A long-term view is another key characteristic. Capital markets are an important element of capitalism and of our current economic system and have played a role for a very long time in commercial society. They have facilitated many important aspects of our modern society—some quite beneficial—but they have, over time and especially in recent years, acquired an increasingly short-term time horizon, fueled by a changing mix of investors and return expectations. Sustainability investors seek to correct for the negative effect of the short-term goals and adopt long-term horizon characteristics. Contrary to the beliefs expounded by many commentators, expectations of rigorous market returns are also characteristics of sustainability investors.

Finally at the very base of sustainability investment is an understanding that an assessment of a successful investment does not rely only on an analysis of its financial characteristics, because we believe long-term success depends on good structures (policies and practice) in the organization's governance and environmental elements and all the social strands mentioned above. In other words, sustainability takes an integrated approach to analyzing a candidate for investment. It therefore needs good information about all of these dimensions, and integrated reporting becomes a requirement for businesses seeking investments. Thus a third characteristic of sustainability investment is integration.

Governance deserves a separate mention here because, like long-term horizon and social well-being, it has suffered from increasingly deteriorating practices over the last few decades, and yet it is so basic to many desired characteristics and outcomes. Some of the key outcomes from good governance are transparency and accountability, alignment of goals between a company's management, shareholders and the wider stakeholders, especially with regard to compensation, appropriate capital allocation, risk management, identification of opportunity, and good relationships with stakeholders (including shareholders).

> Sustainability investors seek to invest in companies that create positive social and environmental outcomes through an integrated analysis of financial, environmental, social and governance factors.

To summarize, sustainability investors seek to invest in companies that create positive social and environmental outcomes through an integrated analysis of financial, environmental, social and governance factors. They have a long-term investment horizon and are active investors, engaging in dialogue with investee companies to advocate for positive practices and outcomes.

We are often asked to describe an ideal company that meets our highest standard; we tend to hesitate to respond as we truly believe that there is no such thing, that in our very complex global world no company will meet all of our top criteria. We often say that the record of companies is written in shades of grey and that what we seek is progress.

However, we have articulated some broad characteristics that we seek in companies and, having given you what we believe are the standards for an effective sustainability investor, it is only appropriate that we also give you what we believe are some of the characteristics of a top sustainability company, these are:

- Business strategy integration: Integrating sustainability considerations into the business strategy
- Leadership: Involvement with sustainability at the board level
- Innovation: Leveraging leading edge ESG practices to drive business innovation and sustainable market growth
- Accountability: Commitment to reporting based on transparent metrics
- Stakeholder engagement: Being open and responsive to multiple stakeholders with formal feedback mechanism

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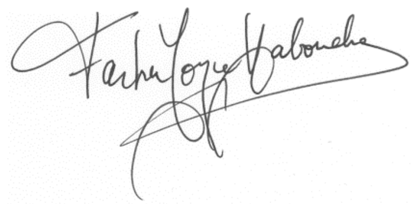
Finally, we want to note that in addition to being "active investors," sustainability investors should see themselves as stewards. They are of course stewards of their clients' financial assets and goals, but—as sustainability investors—they take on the additional responsibility of stewarding for the greater good of civil society. In the UK, where it is now required that professional investors sign a stewardship code, stewardship has even taken on a formal definition. Other jurisdictions, like Japan, are also considering the publication and mandatory adherence to such a code.

We have touched on many issues on which we work every day and, as mentioned above, we plan to come back and elaborate more fully on some. Meanwhile to give you a deeper understanding of some of these issues we comment below on some very specific elements we have been involved in during 2015. They cover a wide range of issues, from supply chain in manufacturing to water stewardship to climate change and setting reduction targets based on science, and we include descriptions of some of our dialogues with companies over the year.



Farha-Joyce Haboucha, CFA
Director of Sustainability & Impact Investing / Senior Portfolio Manager / Managing Director

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TEAM BIOGRAPHIES

Farha-Joyce Haboucha, CFA
Director of Sustainability & Impact Investing / Senior Portfolio Manager / Managing Director

Farha-Joyce Haboucha, CFA, is the Director of Sustainability & Impact Investing, a Senior Portfolio Manager and a Managing Director of Rockefeller & Co. Joyce manages the Sustainability & Impact Investing Strategy, which incorporates environmental, social and governmental criteria into the investment process. Prior to joining Rockefeller & Co. in 1997, Joyce worked for ten years as a Senior Portfolio Manager and Co-Director of Socially Responsive Investment Services at Neuberger Berman. She was previously with Manufacturers Hanover Trust as a Vice President and Group Head of the Personal Trust Investment, Private Banking and Securities Division and served at Union Trust Company as a Senior Investment Officer, Portfolio Manager and Manager of Research. Joyce is a Chartered Financial Analyst charter holder. She received a B.A. in Comparative Literature from Columbia University. Joyce serves on the Board of the Carbon Disclosure Project USA, the Advisory Board of the Heron Foundation's Community Investment Index, the International Corporate Governance Network Working Group on Integrated Reporting and on the Council of the International Integrated Reporting Council. Joyce has served on the Investment Policy Committee of the Financial Women's Association of New York, and the Advisory Committee for the Socially Responsible Investment Fund of the Haas Business School at the University of California at Berkeley. Joyce is a former Chairman of the Social Venture Network and also served on the Investment Committee of the United Methodist Church, the board of FTSE4GOOD USA Advisory Committee and several non-profit organizations.

Mariela M. Vargova, Ph.D.
Senior Vice President / Senior Sustainability Analyst

Mariela M. Vargova, Ph.D. is a Senior Sustainability Analyst for the Sustainability and Impact Investing Team within the Investment Group. She focuses on the integration of environmental, social and governance factors in the investment process, and is responsible for corporate engagement strategies and external collaborations. Prior to joining Rockefeller & Co. in 2005, Mariela had an extensive academic experience in the social sciences, and before that she worked in Eastern Europe on a non-governmental project for the Open Society Institute. Currently, Mariela sits on the Principles for Responsible Investments (PRI) Investor Engagements Advisory Committee, and the Steering Committees of the Sustainable Investment Research Analyst Network (SIRAN) and the International Working Group (IWG) affiliated with the US SIF: Forum for Sustainable and Responsible Investment. She is a member of the New York Society of Security Analysts (NYSSA) and the International Corporate Governance Network (ICGN). Mariela holds an M.A. in Political Science from Sofia University, Bulgaria, and an M.A. and a Ph. D. in Political Science from the New School for Social Research, New York.

Rolando F. Morillo
Vice President / Equity Analyst

Rolando F. Morillo is a Vice President and Equity Analyst for the Sustainability and Impact Investing Team within the Investment Group. Prior to joining the Sustainability and Impact Team, Rolando worked as an Equity Analyst, where his work focused on Latin America and alternative energy. Prior to joining Rockefeller & Co., Rolando worked at UBS Private Banking-Latin America Division as a portfolio assistant. He holds a B.S. in Environmental Economics and Geography from Rutgers University and has completed studies in Seville, Spain.

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Verdelle M. Cunningham
Vice President / Sustainability Analyst

Verdelle M. Cunningham is a Vice President and Sustainability Analyst for the Sustainability and Impact Investing Team within the Investment Group. She previously served as a Senior Associate in the Client Services Group where she worked closely with Rockefeller & Co.'s senior management providing a high level of service to high net worth families, endowments and foundations and also engaged in a wide range of client related activities, serving as the primary client advisor for a number of client relationships. Prior to her role as a Senior Associate, she was a Portfolio Assistant in the Investment Group, and was responsible for researching client specific social matters. Verdelle joined Rockefeller & Co. in 1990 and previously worked for L.F. Rothschild & Co., Inc. She holds a B.S. in Business Administration from the University of South Carolina.

Meredith Block, MPA
Vice President / Sustainability Analyst

Meredith Block, MPA, is a Sustainability Analyst for the Sustainability and Impact Investing Team within the Investment Group. Prior to joining Rockefeller & Co. in 2015, Meredith was the Director of Programs for Africa and Asia at the Blacksmith Institute, an international non-profit dedicated to mitigating the negative externalities of rapid industrialization in emerging markets. She has implemented projects with government, private sector and community stakeholders in over a dozen countries to reduce the environmental and human health impacts from industry and mining. She holds an MPA in Environmental Science and Policy from Columbia University in New York City.

Ran Tao
Senior Associate / Equity Analyst

Ran Tao is an Equity Analyst for the Sustainability and Impact Investing Team within the Investment Group. Prior to joining Rockefeller & Co. in 2015, Ran worked at Bridges Ventures, a private equity fund manager focused on impact investing, where she helped to build and execute the fundraising strategy for Bridges U.S. in its founding year. Ran previously spent three years at Cooke & Bieler, L.P., an investment manager in Philadelphia, where she gained experience in Marketing, Trading & Operations, and Compliance. Ran holds a B.A. in Economics from Yale University.

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We focus not only on the issues of environmental and social results, but also on how issues of environmental, social and corporate governance can potentially impact companies in the long-term, and what business risks and opportunities they create.

ESG MATERIALITY

Why Sustainability is Material to Business

Mariela Vargova — *Senior Vice President / Senior Sustainability Analyst*

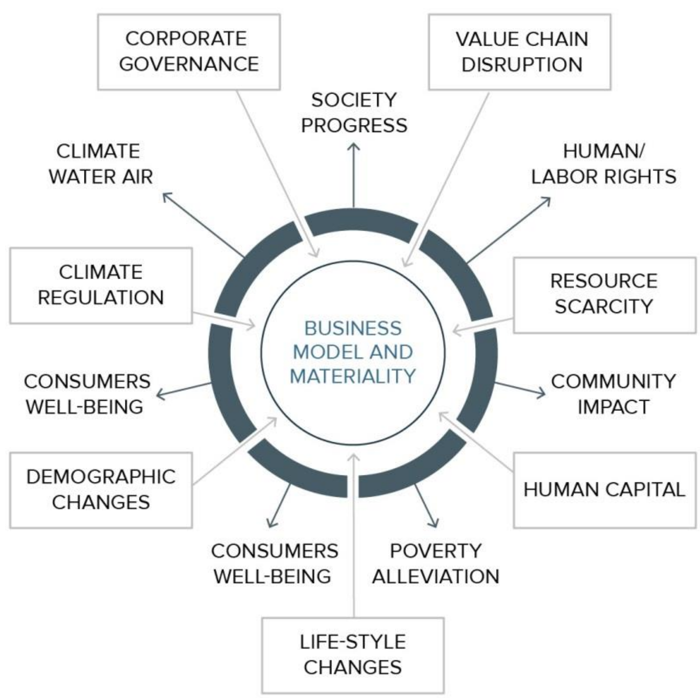
For a long time in responsible investing, environmental, social and governance (ESG) issues and sustainability were considered as external and non-financial factors to businesses. A number of investors began to inquire about the external impact of businesses and the ways in which they added value to society. Since the early 1990s, leading corporations designed innovative sustainability programs in their operations with the goal of doing good through corporate citizenship and philanthropy. Through these programs, they invested in sustainability as a means to address their external impact and to take responsibility in society.

While this positive external impact of corporate sustainability is an important aspect of ESG investing, it presents only one side of the value added. We believe that, at its core, ESG investing is financial. At Rockefeller Asset Management, we focus not only on the environmental and social results, but also on how issues of environmental, social and corporate governance can potentially impact companies in the long-term, and what business risks and opportunities they create. This type of investing looks for best practices in governance and sustainability and seeks to invest in leaders in innovation and risk management. This approach is aligned with new societal expectations aimed at addressing big issues such as climate change, good governance and human capital.

We believe that sustainability is material to business and shareholder value. We start with the business model, the risks that businesses and sectors may have on society and the environment, how companies are managing them, and what solutions businesses provide to address environmental and social challenges. We think of sustainability practices as interrelated and material to the financial performance of companies. When embedded into the business strategy, corporate mindset and culture, we believe sustainability can increase productivity and competitive advantage, potentially leading to stronger financial and social prospects.

How do we do that? We seek leaders in the areas of corporate governance with strong management, environmental sustainability built into their products and operations, and business practices that consider the welfare of their employees and the communities in which they operate. It is true though that even the most sustainably oriented business may pose risks to the environment and society, and as long-term investors we want to know how they manage them. We seek to engage with company management and its board of directors in an effort to foster better business practices for the benefit of all stakeholders — this is where the impact is made.

Today, many companies are rethinking the materiality of sustainability. These forward-looking companies typically undertake comprehensive stakeholder engagements in seeking to identify issues of environmental, social and governance that may have potential long-term material impact on their businesses and financial performance. Companies in the health care sector, for example, may focus on access to medicine, while the IT and telecom companies often seek opportunities in greening data centers and providing data privacy and security. The auto makers generally seek fuel efficiency and sustainable mobility solutions, and the companies in materials and industrial sectors may find materiality in resource efficiency and energy conservation. All these business practices show how sustainability can be built into the business strategy, seeking both financial and social impact.



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FIDUCIARY DUTY

Investing as Fiduciaries in the 21st Century

Mariela Vargova — *Senior Vice President / Senior Sustainability Analyst*

Trust, prudence and loyalty are core elements of the concept of fiduciary duty. Today, these virtues are as relevant to the investment profession as they have ever been. What has changed over time is the investment practice and innovation. At Rockefeller & Co., through the Sustainability and Impact Investing Group, we seek to invest in companies with good practices in governance and sustainability, engaging with them to improve their corporate practices. We believe that this investment approach helps enable us to better fulfill our fiduciary duty and to have a positive impact on capital markets as well as on the environment and society.

> As fiduciaries, we want to assess potential long-term risks to our investments, including ESG issues that may impact businesses in the long-term.

In a recent 2015 report on fiduciary duty, the Principles for Responsible Investment (PRI), a leading global network of investors, raised the issue about fiduciary duty in the 21st Century and how it is consistent with new investment practices and emergent societal expectations[1]. The organization stressed the global growth in ESG investing and highlighted how this trend has changed the investment industry's beliefs and practices. The study also aimed to end the prevailing perception that by investing in sustainability one sacrifices returns and fails to fulfill fiduciary obligation. According to the PRI report, not only is the integration of ESG issues into the investment process consistent with fiduciary relations, but it can strengthen investment performance and risk management.

In October 2015, the U.S. Department of Labor issued ruling with respect to fiduciary duty and ESG investing. It encouraged fiduciaries of private pension plans under ERISA to seek investments with positive environmental and social impact without giving up on return. The Department stated that when choosing between two economically equal investments, fiduciaries could use ESG factors as "tie-breakers."[2] We believe that this guidance will have a significant positive impact on the growth of ESG investing.

At Rockefeller Asset Management, we believe that ESG investing is a way of managing potential long-term risks in a portfolio and are seeking to identify leaders in governance and corporate sustainability. As fiduciaries, we want to assess potential long-term risks to our investments, including ESG issues that may impact businesses in the long-term. We believe assessing ESG and sustainability factors enhances the depth and vigor of our investment research, thereby improving the quality of our investment decision-making. This approach is well-aligned with the recommendations of the PRI Report by which fiduciary duty should be thought of as a "process test" that integrates ESG factors into investments.

These recent developments over the interpretation of fiduciary duty highlight important emerging trends in the global investment industry. We see the global growth of ESG assets under management and the increased investor awareness and integration of issues such as management quality, climate change, and human capital into investment research. We believe all of these trends are impacting the way investors understand and practice fiduciary duty. They not only reinvigorate the conversation about fiduciary duty, but also highlight the materiality of ESG issues to the investment process.

1 Rory Sullivan, Will Martindale, Elodie Feller and Anna Bordon, "Fiduciary Duty in the 21st Century", http://www.unepfi.org/fileadmin/documents/fiduciary_duty_21st_century.pdf

2 U.S. Department of Labor, Employee Benefits Security Administration, "Economically Targeted Investments (ETIs) and Investment Strategies that Consider Environmental, Social and Governance (ESG) Factors", October 22, 2015, http://www.dol.gov/ebsa/newsroom/fsetis.html

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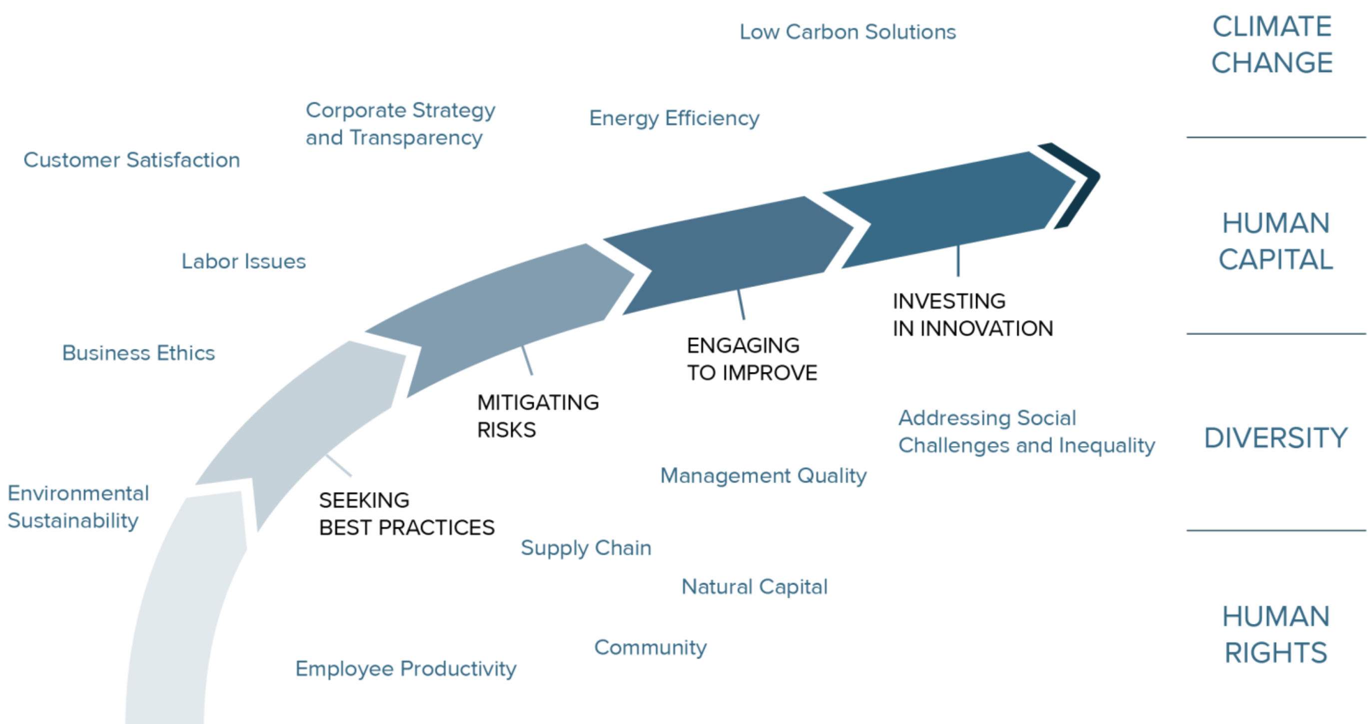
HOW WE SEEK IMPACT



ROCKEFELLER MATERIAL MAP

CLIMATE CHANGE

S&I Pillars: Environment and Human Rights

Meredith Block, MPA — *Vice President / Sustainability Analyst*

The physical, liability, regulatory and transition risks posed by Climate Change pervade all 6 Pillars, making this perhaps one of the most relevant issues tackled this year by the S&I team on behalf of our clients. In advance of the 2015 Paris Climate Conference (also known as COP21) agreement on the reduction of greenhouse gas emissions in December 2015, Climate Change issues were at the forefront of nearly every engagement in every sector.

From the investor perspective, it was largely the result of commitments from the private sector that enabled national governments to effectively negotiate this treaty. Before Paris, it was clear that whether or not consensus language was reached, companies that had already made commitments would continue to increase their energy efficiency plans and thus create demand for more renewable energy purchasing.

Additionally, the Paris negotiations also offered two likely sets of opportunities: Companies in the renewable energy and clean tech space, and Companies with energy reduction programs already in place, who will likely not be impacted by increased regulation. Companies that are already prepared for these risks have the potential to do better in the short-to medium-term as the idea of the “low carbon economy” takes hold. Although a company’s energy demand will likely increase overall as it grows, the energy mix they employ will probably look different as the treaty goes into effect in 2020.

We engaged companies across sectors on:

- Energy reduction in manufacturing
- Energy/emissions savings for the consumer
- Support for productive Climate Policy within their areas of operation
- Risk mitigation strategies for the physical, regulatory and transition risks of their businesses

These areas of focus became particularly important as we engaged companies in the Energy and Materials sectors. Discussions centered on specific issues such as Carbon Asset Risk accounting from a regulatory perspective, fugitive emissions reduction, and corporate lobbying. In addition to direct climate-change related risks, these companies were also engaged on

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indirect risks such as their occupational health and safety records in emerging markets, water use policies and labor management.

An additional element we considered in 2015 was the opportunity for the significant amount of financing that will be needed to achieve reduction commitments in nearly every country. What will the banking sector provide vs. government financing and fixed-income? How quickly will these investments generate returns?

The actual negotiations can be seen as the culmination of both the political and corporate will to address this problem. However, Paris was just the beginning, and largely ceremonial. Many companies will likely continue to move ahead with their own emissions reduction goals ahead of binding regulations, supporting the commitments made by governments worldwide. This is a circumstance in which political pressure and investor pressure have worked in tandem to achieve an important environmental milestone.

CIRCULAR ECONOMY

The Need to Transition to a Circular Economy

Rolando Morillo — *Vice President / Equity Analyst*

In recent years, the discussion around sustainability has encompassed a more pronounced process that is termed the "circular economy." What is the circular economy? It is a restorative and regenerative economic and/or business model that can enable increased value while reducing dependence on scarce resources. (Ellen MacArthur Foundation, 2015) The inspiration for the circular economy is derived from industrial ecology theories that involve the redesign of industrial systems to mimic the efficient and regenerative cycles of the natural environment. (Gallopoulos, Frosch, 1989) The concept of the circular economy allows us to evolve from the conventional, linear, one way production model that has dominated global manufacturing models since the Industrial Revolution to an integrated approach that encompasses financial, economic and environmental factors. The concept ultimately strives to decouple economic growth from environmental impact.

> "It is a restorative and regenerative economic and/or business model that can enable increased value while reducing dependence on scarce resources."
>
> — Ellen MacArthur Foundation, 2015

The current decade is the first in human history in which more people live in towns and cities than in rural areas. The global population is expected to grow to 9.8 billion by 2050 (PRB, 2015) and the proportion living in cities is set to increase to 66% (UN, 2014). Increased consumption, resource use and waste are some of the factors as to why cities are responsible for more than 70% of the planet's carbon emissions. (UN Habitat, 2011) Adding to this pressure is the aspiration of consumers, mainly in developing countries, to be part of the middle class. With the middle class expected to grow from approximately 2 billion people to 4.9 billion by 2030 (The Brookings Institute, 2010), the concern increases that the planet's finite resources get closer to its limits under the current 'take, make and waste' linear economic model. Population growth and urbanization along with a rising middle class have led to resource sustainability concerns from the rapid acceleration of consumptive and extractive processes and business models, particularly in the last few decades. In addition to these concerns, negative externalities such as climate change are driving policies to not only reduce emissions, but to conserve natural resources. Governments, cities and companies are under increased pressure to consider viable alternatives that consider sustainable solutions and new models, such as the concept of the circular economy, that seek to enhance value and provide resiliency to urban environments.

In December 2015, the European Union (EU) proposed a legislative package to incorporate circular economy initiatives that include hard targets, incentives and access to finance. The package offers a regulatory roadmap into one of the most comprehensive legislations that the EU has ever proposed. The EU views the circular economy as a way to boost the competitiveness of the region by potentially shielding its economy against scarcity of resources and volatile commodity prices, while at the same time creating new opportunities and more efficient ways of producing and consuming. According to the Ellen MacArthur Foundation, the circular economy could grow resource productivity by up to 3% annually and create a net benefit to the economy of 1.8 trillion EUR by 2030. The EU's motivation for implementing circular economy initiatives is the understanding that it cannot compete on low wage costs, and it does not have access to the same natural resources as other parts of the world. In addition to the potential of creating jobs and enhancing competitiveness, the circular economy initiatives tie in closely with EU priorities on climate change, energy policy and overall sustainable development.

The potential to disrupt the linear economy is possible, but barriers exist that prevent the accelerated transition of this concept. Many aspects of our current economy are based on decisions made long ago that reflect ingrained habits and

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processes that need to be revised. Governments, municipalities and companies are seeking solutions to reduce cost and increase resource efficiencies given our planet's natural limits, but incentives need re-aligning in an effort to capture, redistribute, and enhance value. Increasingly, companies are seeking ways to develop products with a longer life, products that can be reused, repaired and eventually recycled, a circular process that reduces or eliminates waste. While the EU's circular economy proposal is important in establishing initial goals and targets, other efforts in the private sector would be needed to establish a level of scale that can create arbitrage opportunities and demonstrate adequate returns to attract investors. Rockefeller Asset Management's Sustainability and Impact team seeks not only to engage on current company issues but also to help advance the dialogue for such new concepts as the circular economy.

As shareholders, we can use the privilege of executive management access either to introduce this concept or to better understand how its implementation and adoption across industries and companies can add to shareholder value.

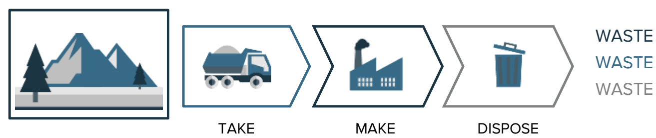
LINEAR ECONOMY

Technical and biological materials mixed up

Energy from finite sources

Products have one lifetime

Consumer interaction ends at consumption



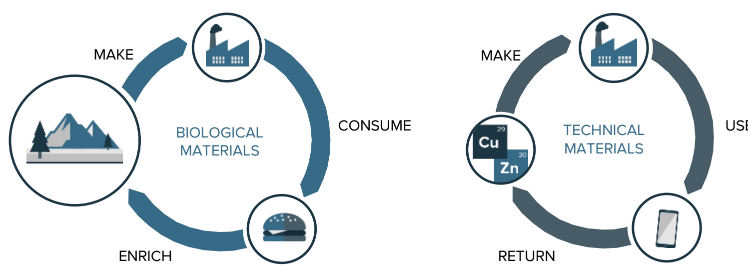
CIRCULAR ECONOMY

Asset utility is maximized

Energy from renewable sources

Reduce, reuse and recycle

Share, use and return



Source: Ellen MacArthur Foundation, 2015

INTEGRATED REPORTING

From Concept to Impact: Integrated Reporting—A New Level of Investment Transparency

Farha-Joyce Haboucha — *Director of Sustainability & Impact Investing / Senior Portfolio Manager / Managing Director*

Markets depend on a high level of disclosure and robust reporting by companies. It took many years and an increased level of global regulation to yield the standards of financial disclosure that were needed to create investors' trust in the integrity and comparability of the information released by companies. For the past three decades there has been a heightened recognition that financial information alone was not sufficient to allow investors to make robust decisions about investments; moreover, information about a number of practices in potentially key strategic areas was also needed to enable investors and other providers of capital to more fully assess the risks and opportunities confronting a given company in the short- and long-terms. Much of this information was not considered part of the traditional financial disclosure and had to be requested by a subset of investors interested in a wider scope of practices and impact, so called sustainability or responsible practices. Over the years, initiatives were developed to standardize and routinize

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this reporting. Some, such as the Carbon Disclosure Project (CDP), had a narrow focus, but they were followed by broader initiatives, such as the Water Disclosure Project, the Global Reporting Initiative (GRI) and the Sustainability Accounting Standards Business Initiative (SASB). All of these initiatives focused on developing widely accepted and recognized indicators in specific areas. CDP and GRI have been around for a number of years and have seen good uptake by companies and investors, especially in Europe and the UK. SASB is more recent but appears to be gaining momentum in the U.S.

Integrated Reporting is among the youngest and has taken a different track, focusing on a holistic principles-based approach rather than on specific- and sector-based indicators. We believe that Integrated Reporting (IR) has the potential to become a major game changer in the way companies report and investors use information.

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What Is Integrated Reporting?

Identifying Input and Output

Integrated Reporting identifies the “resources” that a company uses as inputs to create its products and services. Also, integrated reporting asks companies to comment on all of the inputs and to identify six resources that it calls “capitals”: financial, intellectual, manufactured, natural, human, and social. It asks companies to comment on all of the inputs and to identify how their business model and strategic activities affect these capitals, and how their activities create value (or detract from value) on each of these capitals in both the short- and long-terms. Integrated Reporting goes to the heart of one of the primary weaknesses of traditional company reporting: the opaqueness about the externalities a business model creates. Integrated Reporting seeks to provide an added benefit of usefulness to investors: it encourages companies to reflect and comment on the various elements of their business models, including material inputs such as raw material, human resources and other resources that are key to the success of a company.

Risks and Opportunities

As mentioned above, rather than indicator-based, Integrated Reporting is principles-based. It enumerates the principles that must be adhered to by companies in order for their reports to be recognized as an Integrated Report. Among these principles is the requirement to identify the potential risks a company faces in various criteria and to comment on the company’s plans to mitigate these risks. Like the requirement for commenting on resources, this principle-based requirement gives a new level of transparency and insight into management’s understanding of their business and their strategic approach. It also gives investors a good and needed view of the trends and challenges faced by the business, beyond legal disclosures that currently constitute the bulk of disclosure typically dispensed by companies.

Materiality

Integrated Reporting recognizes that not all resources and outcomes have the same significance for each company and that, for some companies, capital and the impact of the business model are greater than for others. Integrated Reporting requires companies to report on the most material capital and impacts and, therefore, requires a materiality assessment by the companies. Companies that have started to report under the Integrated Reporting template have been undertaking this materiality analysis. Integrated Reporting has identified a recommended process which we describe below; we also describe the process adopted by some of the companies to illustrate the usefulness of this exercise for both reporting companies and investors.

Goals, Targets and Connectivity

Integrated Reporting requires tying reporting to the strategy of the company. A strategic approach usually implies goals and targets; under Integrated Reporting, a company would have general strategic goals and targets as well as goals and targets associated with each capital. One of Integrated Reporting’s basic principles is the connectivity between a company’s various practices and criteria, or capitals, especially between the various non-traditional capitals and the financial capital. In order to achieve goals and targets, a company would embark on specific activities; part of the connectivity principle would encourage the company to identify goals and targets with the corresponding activities, or vice versa, to identify the activities with the goals and targets they support. As with the risks mentioned above, this gives a deeper view of a company’s insight into how it plans to achieve its various goals and targets and gives investors a template for discussion and dialogue with the company about its value creation and risk mitigation activities.

Examples of goals and targets that would require a description of corresponding activities:

- Reduce environmental footprint
- Be a best place to work
- Increase diversity at executive and middle management level
- Increase new products offering by 15%
- Be recognized for governance excellence
- Be considered a leader in the community

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Reporting on Goals and Targets

Annual reporting has the potential to mark progress towards goals, review goals in light of progress or its lack, and identify challenges that impede progress towards goals and targets.

Challenges to the Adoption of Integrated Reporting

As mentioned above, Integrated Reporting has had more success in Europe than in the United States. The first and probably the main reason is because, after a lag, European companies have been much more adept at creating sustainability reports in addition to their financial reports. In the U.S. there has been confusion about the regulatory reporting requirements, and it has taken a while for companies to become comfortable with the concept that Integrated Reporting is in alignment with SEC reporting requirements and that adding information about natural, human, social and intellectual capital would not interfere with those requirements. Another challenge has been the lack of investor demand from mainstream conventional investors. However, as sustainability investment becomes more widespread among U.S. institutional investors and a recognized strategy by investment consultants, more and more investment managers will likely seek Integrated Reporting. They will look for such information in order to integrate ESG criteria into their investment decision-making process. Therefore, they will require more disclosure and reporting on these criteria from investee and potential investee companies, who will in turn recognize that the principles for Integrated Reporting will give them a template for meeting these requirements. The challenge of gathering the needed data will remain, but the International Integrated Reporting Council (IIRC) has been working with various technology companies to create processes that should resolve these challenges.

GENDER IMBALANCE

China: A Challenging State of Gender Imbalance

Ran Tao — *Senior Associate / Equity Analyst*

It has been more than 35 years since the Chinese government instituted its One-Child Policy. Since then, China has experienced significant social and economic growth. Yet, inadvertent consequences from this measure now complicate the country's growth trajectory, driving China's top leadership to confront pervasive demographic challenges. According to the communique from the Fifth Plenum in October 2015, the government formally ended the One-Child Policy and, instead, will permit all Chinese couples to have a second child.[3] This marks a watershed moment, and the Party's subsequent rhetoric on the two-child policy could present an opportunity to encourage not just population growth, but also a more progressive view of women's roles in society.

The Chinese government began to informally curb population throughout the 1970s, culminating in the formal implementation of the One-Child Policy in 1979. Over the next three decades, the country saw a steep decline in its fertility rate and a sharp rise in its sex ratio at birth.[4] This translates to a grim reality: As of 2010, there were 33 million more men than women under the age of 35 in China, a figure estimated to grow to 38 million in 2020.

The growing surplus of unmarried men raises various social and political concerns. High concentrations of single and marginalized men could heighten social tensions and increase the threat of social unrest.[5] Additionally, as a result of this gender gap, the country is faced with bride scarcity. Human trafficking of women and girls for forced marriage and prostitution has and will likely continue to occur from neighboring countries, such as Burma, Vietnam, Mongolia, Cambodia, Laos and North Korea, as well as within China.[6] Bachelors in China, especially those in poorer regions, also represent a significant risk group for the transmission of HIV and other sexually transmitted infections from engaging with sex workers and in drug use.[7] And lastly, research suggests that high levels of bachelorhood may have important implications for national and international security.[8]

The National Health and Family Planning Commission (NHFPC) acknowledges the country's gender imbalance challenge, stating, "Our country has the most serious gender imbalance that is most prolonged and affecting the most number of people."[9] The agency has launched nationwide campaigns to crack down on prenatal gender tests and sex-selective abortions, and the Chinese government has further liberalized its family planning policies. A new measure introduced at the end of 2013 allowed a couple to have a second child if either parent is an only-child. But does this measure arrive too little, too late to address China's demographic challenges?

Experts estimated that the 2013 policy would spur a mini baby boom of two million additional births per year for the next five to

3 "13th Five Year Plan focuses on economic development," Xinhuanet, Oct. 29, 2015 (http://news.xinhuanet.com/politics/2015-10/29/c_1116983078.htm).
4 Sex ratio at birth is defined as the number of male births per 100 female births. World Population Prospects: The 2015 Revision.

5 Ethan Sharygin, Avraham Ebenstein, Monica Das Gupta, "Implications of China's future bride shortage for the geographical distribution and social protection needs of never-married men," Population Studies: A Journal of Demography (2013), 67:1, 39-59.
6 U.S. Department of State, Trafficking in Persons Report 2014.
7 Joseph D. Tucker, Gail E. Henderson, et al., "Surplus men, sex work, and the spread of HIV in China," AIDS (2005), 19:6, 539-547.
8 Poston et al., "China's unbalanced sex ratio at birth."
9 Sui-Lee Wee, "China says its gender imbalance 'most serious' in the world."

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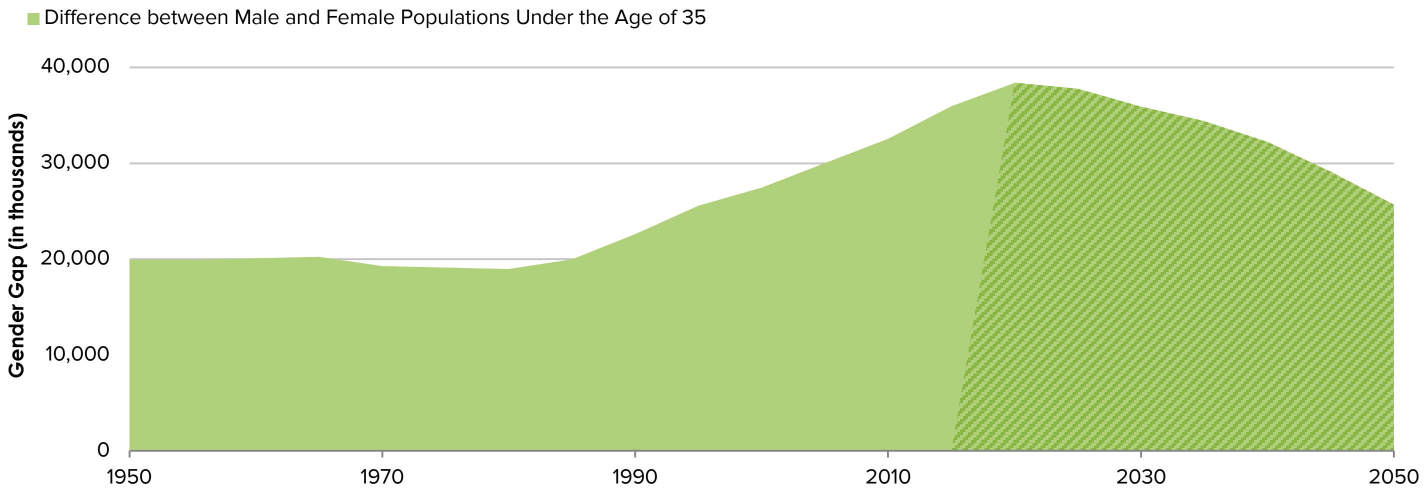
six years, but results from the first year came in far below expectations.[10] In 2014, less than one-tenth of the 11 million eligible couples filed applications for a second child, and the country saw only 470,000 more births than in 2013.[11] Explanations for the disappointing results include the trend towards urbanization, high cost of childrearing, the expansion of professional opportunities for women, pollution and other quality of life concerns. These concerns will still apply to couples contemplating to have a second-born under the new two-child policy, leading demographers to question its ultimate effectiveness in resolving China's demographic problems.

If a mini baby boom does materialize as a result of the two-child policy, we would expect increases in spending needed to raise a child from cradle to college, including baby products, education, health care and real estate. The boom's potential effects on China's state of gender imbalance, however, are less linear. The government's abandonment of the One-Child Policy could decelerate the country's growing gender gap. Nonetheless, a true reversal of China's gender imbalance will require cultural and generational shifts in how women are valued from prenatal to PhD.

Chart 1: Gender Gap in China, 1950-2050



Source: United Nations World Population Prospects: The 2015 Revision

10 Shan Juan, "Couples slow to apply for 2nd child," National Health and Family Planning Commission of the PRC, Jan. 13, 2015 (http://en.nhfpc.gov.cn/2015-01/13/content_19308732.htm).
11 Dai Qing, "Relaxing China's One-Child Policy," The New York Times, June 12, 2015 (http://www.nytimes.com/2015/06/13/opinion/relaxing-chinas-one-child-policy.html).

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2015 INDUSTRY PARTICIPATION

3/30/2015
Financial Research Associates ESG and Impact Investing Summit
New York, NY

5/27/2015
Carbon Disclosure Project Spring Workshop 2015
New York, NY

6/9—11/2015
Capitol Hill Ocean Week Symposium
Washington DC

7/15–16/2015
Impact Capitalism Summit
Nantucket, MA

9/8/2015
London Stock Exchange Model Guidance Launch
London, UK

9/8—9/2015
Principles for Responsible Investment Conference
London, UK

10/1/2015
PRI's Fiduciary Duty in 21st Century Report Launch
New York, NY

11/2–6/2015
International Water Week
Amsterdam, Netherlands

11/16–18/2015
Opal Endowments and Foundations Forum
Boston, MA

Q1 Q2 Q3 Q4

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