WE KNOW WHERE
Intelligent Investing Positive Impact
“I believe that every right implies a responsibility; every opportunity an obligation; every possession a duty.”

—John D. Rockefeller, Jr.

More than fifty years ago, several members of the Rockefeller family began voicing the view that investment decisions have moral, social and financial dimensions. This belief grew naturally out of their family’s shareholder and philanthropic values. As a result of this beginning, Rockefeller & Co. today offers one of the most experienced and comprehensive sustainability and impact investment services to individuals, families and institutions.

As an early pioneer of sustainability and impact investing, Rockefeller & Co.’s approach is based on two important tenets:

1. Adding sustainability criteria to an investment selection process does not require the sacrifice of financial performance.

2. Sustainability works.
Sustainability works. In many cases, it directly reduces costs, increases efficiency, and fosters innovation.
We understand that good corporate citizenship is a moving target. “Best practices” evolve over time and perfection is not possible. That said, there are some absolutes. We avoid investing in certain industries and in companies that are, for example, egregious polluters or persistent violators of human rights. We can also incorporate avoidance filters that may be either absolute (e.g., tobacco) or informed (e.g., genetically modified organisms, animal rights). But the heart of Rockefeller’s approach is to buy companies that can profit from products, policies and practices that encourage solutions to major problems facing the world. Our investment decisions represent judgments about the future and, in this sense, we see ourselves as agents for our clients’ aspirations.

Rockefeller is firmly committed to the broad capitalist model. Imperfect as it may be, it is the only system that has consistently produced the greatest good—both socially and economically—for the greatest number. It is, however, a system that requires delicate balances and accommodations between the needs and interests of companies and their stakeholders. In each period of history and in every part of the world, the challenges of striking appropriate balances differ, but the market system itself has the flexibility to evolve and incorporate change. In essence, that process of encouraging positive change is our basic investment theme.
A company is more than a profit-generating engine. Society charters businesses to fulfill its material needs and to address a range of goals and aspirations that are not strictly financial. These include providing employment, a living wage and environmental stewardship. In the long-term, for a business to prosper its products and other impacts must be aligned with the values of the communities in which it operates.

As we have known for over three decades, sustainability and impact investing can provide solid financial results. Contrary to popular understanding, research shows that indexes of sustainable and socially responsible companies have generally outperformed the S&P 500 Index and other mainstream indexes for the last twenty years.¹ As a result, investors can be confident that there is a broad range of high performing companies from which to construct a sustainability-informed portfolio.

The Sustainability Imperative

Today’s concept of global sustainability includes providing products that are designed, produced, packaged and used efficiently, supporting fundamental human rights and contributing to the economic aspirations of people everywhere. As investors who place a high value on long-term returns, we believe that ownership brings with it responsibilities and we seek to represent clients who want to be engaged owners. Thus, we advocate for accountability and transparency in corporate operations and decision-making. Furthermore, we deploy our investors’ capital to support progressive principles of corporate governance.

Given this goal of impactful and proactive ownership, our assessment of companies considers six broad categories:

- **Governance**
  We examine a company’s management quality and its governance policies and procedures—especially those between the Board and management and between the company and its stakeholders.

- **Environmental Stewardship**
  Focusing on the increasing constraints on the resources that Planet Earth is able to provide, we collect detailed information about companies’ environmental impacts and evaluate their mitigation efforts regarding climate change and conservation.

- **Products and Marketing**
  We look closely at product quality and responsible marketing practices, placing strong emphasis on green product innovation and services focused on profitably addressing important social and environmental priorities.

- **Community**
  We examine the ways in which companies use their influence to support and sustain their communities, especially in impoverished and disadvantaged regions.

- **Human Rights**
  We consider human rights to be fundamental matters of justice and equality and that companies are responsible not only for their own performance but also for the performance of their partners and suppliers.
Our Investment & Assessment Process

Our investment process begins with the creation of a core global equity portfolio through a “fundamental bottom-up” process. Using a globally-driven process with broad representation criteria allows us to take into account critical macro- and microeconomic forces that affect all companies.

Our universe consists of over 3,000 companies in more than 75 countries. Our analysts and portfolio managers assess industry and country economic prospects, develop investment themes and challenge the results of detailed research.

We employ a disciplined research process designed to:

- Define the intrinsic value of a stock through the use of internally generated cash-flow models
- Identify the three to five year growth potential,
- Test our valuation against the market consensus, and
- Establish our target price and inflection point.

This process allows us to identify securities selling at compelling discounts to their fair value independent of region or style bias. Thus, we seek to own ‘growth’ stocks when they are undervalued and ‘value’ stocks when they are attractive.
What sets Rockefeller apart is that we focus our assessment on the materiality of the sustainability issues associated with an individual company’s business model and the intrinsic risks that arise from that business model. Research is conducted in-house using our information resources as well as those of external providers. Because we use a quantitative rating system, we assemble a database of best practices in all areas of our six assessment criteria. The system recognizes that best practices are always evolving and vary by industry and other factors.

We ultimately look for the hallmarks of best practices which are:

- Integration of sustainability into basic business strategy,
- Involvement with sustainability at the Board level,
- Use of leading-edge sustainability practices as a driver of innovation and growth,
- Commitment to sustainability reporting on transparent metrics, and,
- Responsiveness to stakeholder interests.

For example, the system accounts for the fact that the environmental practices of an energy company are far more important than those of an advertising agency. Ultimately, each company is rated on each of the six sustainability criteria (e.g., environmental stewardship, human rights) across two dimensions (i.e., intrinsic business model risk, individual business leadership). The result of this process is a portfolio containing companies that cross an overall sustainability and impact threshold and are leaders in all areas in which they have high business model risk.
Impact

Sustainability investing by itself has an impact on companies. The number of sustainability and impact investors has grown dramatically, especially in the United States, Canada and Europe and, as it has, more and more companies have adopted sustainability policies and practices. According to the Boston College Center for Corporate Citizenship, the number of companies reporting on their sustainability issues has grown from 26 in 1992 to over 3,000 today.

Sustainability is a journey not a destination. Shareholders are increasingly accepting the responsibilities of ownership and are seeking ways to prod, encourage and assist companies along the way. Often they encounter initial resistance but in recent years many companies have come to the conclusion that, in fact, sustainability is both essential and profitable. Rockefeller offers a broad range of services to assist clients who wish to engage with the companies they own.

Proxy Voting
Rockefeller votes all proxies for managed stocks and takes care to evaluate management and shareholder resolutions relative to our sustainability criteria for sustainability clients. Clients also have the ability to retain, if they wish, proxy voting authority.

Shareholder Resolutions
In selected cases, we may sponsor or co-sponsor shareholder resolutions primarily in the areas of environmental management and governance.

Dialogue
We regularly engage in on-going sustainability discussions with senior managers of companies in our portfolios, occasionally in conjunction with clients and/or partner organizations. Dialogue is never meant to be adversarial and is maintained only as long as there is a realistic prospect of progress.
We live in challenging times. We are beset on all sides by economic dislocations brought about by complex forces including globalization, politics and human nature.

It is time for a new understanding. It is essential for all parties to realize that business and society are not adversaries but rather inseparable and indispensable allies. Investor/owners are in the best position to be the bridge builders. We believe investors should assert their proprietary rights to assure that long-term investment goals and the company’s place within the global community are incorporated in today’s decision making. It is up to these owners to reform governance practices so that corporate policies are aligned with the legitimate concerns of all stakeholders.

Sustainability is not something that will be achieved overnight or easily or in the absence of good will. But it is the foundation of everything else we seek for ourselves and the future. We invite you to join us in advancing it.
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