As The Anti-ESG Crowd Makes Its Final Stand, Stakeholder Primacy Is Alive & Well

Third Quarter 2021

Reassessing The BRT

As inflows continue to rise, institutional asset managers validate its pragmatism, and government policy realigns with more sustainable approaches, the anti-ESG crowd is making its final stand to stop ESG from becoming mainstream. Years ago, majority sentiment said sustainable investing, or SRI (socially responsible investing), served only as a niche approach for the "tree-huggers" and ultra-progressives. Now, the consideration of all stakeholders (not just shareholders) in investment decisions has become more commonly understood and accepted—and not just for the sake of investor values, but for the legitimate materiality to long-term returns.

Two years ago, the Business Roundtable (BRT) made news when it shifted away from the concept of shareholder primacy. The August 2019 Statement on the Purpose of a Corporation, signed by major CEOs like JPMorgan's Jamie Dimon, Apple's Tim Cook, and Walmart's Doug McMillon said, "Each of our stakeholders is essential. We commit to deliver value to all of them, for the future success of our companies, our communities and our country." But two years after that breakthrough statement, researchers at Harvard Law School say it was "mostly for show." Their research included an analysis of corporate bylaws, proxy statements, governance guidelines, and other corporate documents, finding little differences from two years prior.

And yet, over the last two years amid the pandemic, climate disasters, and the murder of George Floyd, many companies made very clear changes to benefit the planet, customers, workers, and communities. Companies like Home Depot and Target, for example, increased wages and overtime pay while extending sick leave. JPMorgan publicly announced it would seek to lend trillions to renewable energy and dramatically reduce its lending to the fossil fuels industry.

While just 45% of the 100 largest U.S. companies disclosed racial/ethnic board diversity in 2019, a total of 83% reported the same in 2021—a 38-percentage-point increase, as companies continued to recognize both the moral necessity and the business benefits of better diversity and inclusion efforts.

Sustainability efforts and a more long-term mindset aren't brought to life by corporate bylaws but in the core values and social contract that companies have with stakeholders. To this point, our partners at JUST Capital reviewed the performance of BRT companies in its JUST 100 list. About 37% of signatories were in the JUST 100, and the majority landed in the top half of the rankings. These companies tended to outperform non-signatory companies and did well on community and worker issues. Equity returns for the BRT signatory companies also outperformed the Russell 2000 Index. So, while there is still work to be done to better measure stakeholder value creation and provide consistent disclosure, the evidence suggests sustainability is good for people, planet, and shareholder returns.

What Seeds is doing. The concept of stakeholder primacy is imbedded in Seeds' overall investment philosophy and process. We are also partnered with JUST Capital to measure the impact of Seeds portfolios versus market indices. Our process added several companies to certain portfolios in the past quarter that perform well from a social impact perspective, including Comcast Corp., Thermo Fischer Scientific, and Bank of New York Mellon.

Market Volatility Reemerged

Financial markets faced a reemergence of volatility after a mostly steady first half of the year. While the S&P 500 rose 0.3% during the entire quarter, markets fell 5% from their peak on Sept. 2 through the end of the quarter as investors assessed inflation risks amid supply chain pressures, rising interest rates, slowing corporate earnings, and the looming threat of the Delta variant.

On average, Seeds large cap equity portfolios fell by 6% since the end of August through the end of the quarter. Health care and technology in particular contributed to the decline. The consumer and financial sectors fell but held up better than the overall market. At Seeds, we remain satisfied with year-to-date average performance of 22% through the end of the quarter. While we expect greater market volatility over the short term, we view individual stock laggards as opportunities for tax-loss harvesting and adding high-quality, sustainable companies at more reasonable valuations.

Investors Get More ESG Access

In early October, the Labor Department proposed a rule change that reverses Trump Administration policies related to sustainable investing in retirement accounts. The new rule, called Prudence and Loyalty in Selecting Plan Investments and Exercising Shareholder Rights, permits a consideration of environmental and social factors (or "ESG" issues) when considering retirement investment options, meaning investors can incorporate issues like climate

change because such factors can materially affect the long-term viability of companies. Last May, President Biden asked the Labor Department to consider suspending or rescinding the Trump-era rule on ESG investments. The new rule, expected to go into effect after a 60-day comment period, comes after the Labor Department consulted with various consumer groups and asset managers.

What Seeds is doing. A consideration of environmental and social factors has always been integral to Seeds' investment process. We are pleased to see that policy will now empower investors' growing desire to better understand material ESG risk and to better align investment portfolios with values.

Poor Sustainability Practices May Lead To Facebook Shakeup

While Facebook (FB) has faced past criticism, thousands of internal documents recently uncovered and delivered to the Securities and Exchange Commission by a whistleblower has put the company's malfeasance back in the spotlight. On Oct. 3, 60 Minutes aired an interview with Frances Haugen, a former Facebook product manager, who discussed how the company's algorithms serve to amplify hate speech and misinformation. By failing to protect its users from misinformation and deepening political divisions around the world, Facebook is hurting its users and even our democratic process. Clearly, such practices represent material ESG risks for the company over the long term, and investors, both for the sake of returns and personal values, will likely take notice. Increasing public backlash over Facebook and its Instagram platform are likely to lead to more lawsuits and increased scrutiny from regulators and Capitol Hill.

Facebook has become a massive company, with 2.8 billion daily users, over $100 billion of revenues, and a trillion-dollar market capitalization. In our view, Facebook's sustainability problems may lead to greater efforts (and costs) to police its community and stamp out inappropriate content, which could lower revenue and raise costs. Operating margins have already fallen from almost 50% in 2017 to 43% in the first half of 2021. We see further margin erosion ahead as the company may increase spending on content moderation, a group which includes over 15,000 people and is assisted by AI-driven tools. Lawsuits and regulatory burdens could also harm the company's financial position.

There are several pending class-action lawsuits dealing with violations of securities laws, antitrust concerns, and inadequate consumer protections. Given these growing concerns, FB stock has underperformed the S&P 500 by about 11% over the past 52 weeks ended Oct. 20.

What Seeds is doing. Seeds does not own FB stock in any of its portfolios. Our view since inception is that Facebook is a negative force in society and that its business model is not sustainable in current form. We also question the strength of Facebook's corporate governance since the company has not done enough to protect users and provide a safer community. The fact that Mark Zuckerberg has a majority 58% voting control is also a concern from a governance perspective. Our process might allow Seeds portfolios to own FB in the future, but only after the company has gone through a massive transformation.

Table 1.

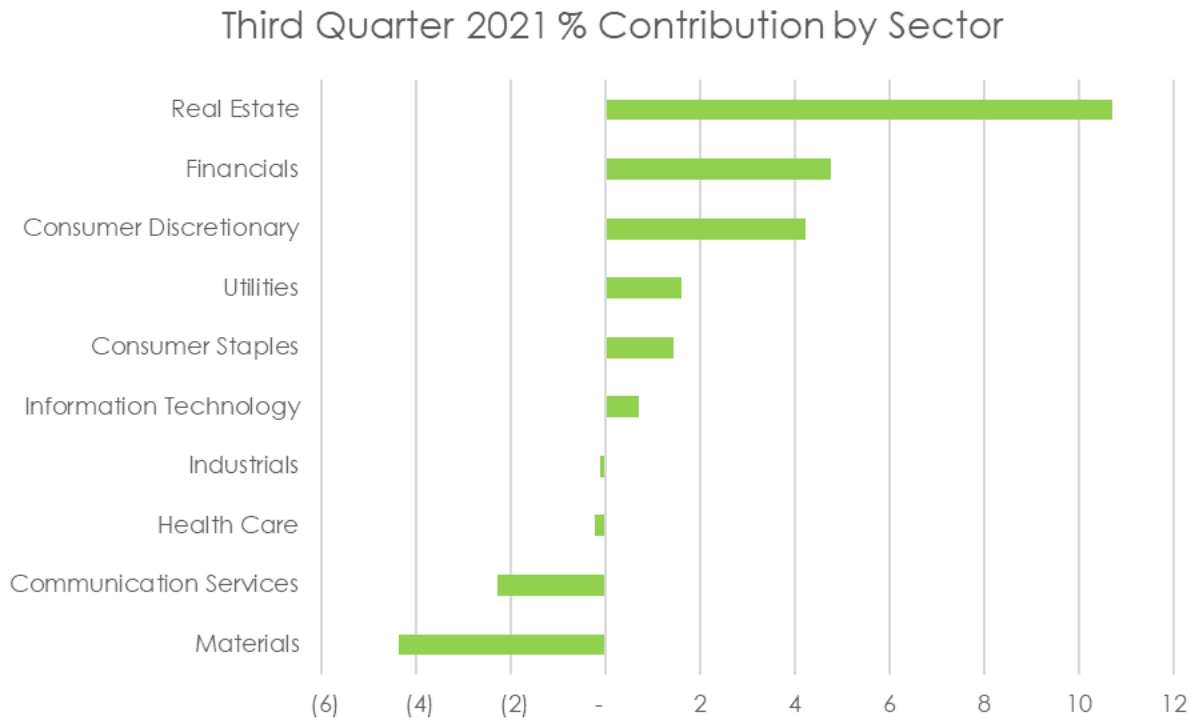
Third Quarter 2021 Seeds US Large Cap Equity Holdings Performance			
Name	**Symbol**	**Sector**	**Return**
STMicroelectrics NV ADR RegS	STM	Information Technology	20.1%
Sony Group Corporation ADR	SONY	Consumer Discretionary	13.7%
CBRE Group, Inc. Class A	CBRE	Real Estate	13.6%
ASML Holding NV ADR	ASML	Information Technology	7.9%
Waste Management, Inc.	WM	Industrials	7.0%
Keysight Technologies	KEYS	Information Technology	6.4%
Home Depot, Inc.	HD	Consumer Discretionary	3.5%
Sysco Corporation	SYY	Consumer Staples	2.2%
TE Connectivity Ltd.	TEL	Information Technology	1.8%
Vestas Wind Systems A/S	VWSYF	Industrials	1.4%
Eaton Corp. PLC	ETN	Industrials	1.2%
Morningstar, Inc.	MORN	Consumer Discretionary	0.9%
Jabil Inc.	JBL	Information Technology	0.6%
Trimble Inc.	TRMB	Information Technology	0.5%
Mettler-Toledo International Inc.	MTD	Health Care	-0.6%
Danone SA ADR	DANOY	Consumer Staples	-3.7%
Target Corp.	TGT	Consumer Discretionary	-5.0%
Orsted Unsponsored ADR	DNNGY	Energy	-5.7%
Taiwan Semi. Sponsored ADR	TSM	Information Technology	-6.8%
HP Inc.	HPQ	Information Technology	-8.8%
LVMH ADR	LVMUY	Consumer Discretionary	-9.2%
W.W. Grainger, Inc.	GWW	Industrials	-9.9%
Heineken NV Sponsored ADR	HEINY	Consumer Staples	-13.6%
Cigna Corporation	CI	Health Care	-15.2%
Adidas AG Sponsored ADR	ADDYY	Consumer Discretionary	-15.4%

Note: Full holdings report available upon request. See additional returns disclosures at the end of this document. Core holdings are those positions that Seeds believes screen strongest regardless of client values priorities and therefore are included in all client portfolios.

During the third quarter, Seeds portfolios declined 0.5% versus +0.2% for the S&P 500 Index. On a year-to-date basis, Seeds rose 17% versus 15% for the S&P 500. During the quarter, performance was led by the real estate, financials, and consumer discretionary sectors. Sector laggards include communications services and materials (chart 1).

Due to continued inflationary concerns and the ongoing COVID pandemic, the financial markets were relatively more volatile in the third quarter.

Chart 1.



Source: FactSet. Note: "Average" refers to the average performance of all existing Seeds model allocations. Full performance reports available upon request. Contribution to return measures the contribution of the sector constituents to the portfolio's overall return.

Seeds strives to keep sector allocations in line with the S&P 500. At the end of the third quarter, our Seeds portfolios on average over-weighted consumer discretionary, consumer staples, industrials, materials, and real estate relative to the S&P 500. Our portfolios were underweight communication services, financials, and health care. Our portfolios were equal weight information technology, energy, and utilities (table 2).

Relative sector weights remain unchanged compared to the second quarter. While Seeds does not purposefully deviate from S&P 500 sector weightings, each Seeds allocation may include sector variability relative to each other and to the benchmark based on the investable universe availability and on client values prioritization.

Table 2.

Seeds US Large Cap Equity Aggregate Sector Weights Vs. S&P 500 (proxy)		
Sector	**Seeds Aggregate**	**S&P 500**
Information Technology	27.3%	27.3%
Consumer Discretionary	16.4%	12.3%
Health Care	10.5%	13.2%
Consumer Staples	10.2%	5.8%
Financials	8.7%	11.4%
Industrials	12.2%	8.1%
Communication Services	2.2%	11.1%
Real Estate	4.3%	2.6%
Utilities	2.1%	2.4%
Materials	4.0%	2.5%
Energy	1.8%	2.7%

Note: "Aggregate" represents the total stock universe available for Seeds allocations. Figures exclude cash position.

As Seeds continuously assesses earth, people, and corporate integrity (EPI) criteria related to every investable company, our rules framework seeks those that demonstrate superior EPI characteristics, particularly related to measurable risk management, along with strong fundamental financial factors. Seeds' overriding discipline is a relentless focus on quality, with a strict regard to valuation over a long-term time horizon. In our rules framework, we continue to focus on the quality of management, quality of the business model, a proven track record, predictable earnings, and sustainable business practices. In this active approach, portfolio replacements become necessary as a result of sustainability metrics, fundamental financial metrics, valuation, or deeper qualitative assessment.

During the third quarter, Seeds portfolios averaged 8.6% annualized turnover. This was down compared to 15.1% in the prior quarter. In general, our process strives to keep turnover rates low while exercising tax efficiency with any trades.

Table 3.

Seeds Average Turnover Per Quarter		
Quarter	**Average Securities Per Portfolio (No.)**	**Annualized Turnover**
Q4 2020	62	8.6%
Q1 2021	62	21.5%
Q2 2021	62	15.1%
Q3 2021	62	8.6%

Table 4.

Complete Third Quarter 2021 Buys & Sells		
Companies Bought		
Symbol	**Name**	**Sector**
MU	Micron Technology	Technology
CMCSA	Comcast Corp.	Telecom Services
TSM	Taiwan Semiconductor	Technology
TMO	Thermo Fisher Scientific	Health Care
BK	Bank of New York Mellon	Financials
BEPC	Brookfield Renewable Corp.	Utilities
Companies Sold		
Symbol	**Name**	**Sector**
PEP	PepsiCo, Inc.	Consumer Staples
GIS	General Mills, Inc.	Consumer Staples
ADI	Analog Devices, Inc.	Technology
CMI	Cummins, Inc.	Industrials
DHI	DR Horton, Inc.	Homebuilders
BEP	Brookfield Renewable Partners LP	Utilities

Seeds Fixed Income: Eyes Remain On Inflation

Rising inflation concerns pushed 10-year yields up 81 basis points from January to the end of March 2021. The 10-year yield peaked at 1.78% on March 30, 2021. Since then, yields fell back to an August low of 1.18% as inflation concerns abated. Yields moved back up to the 1.56% level by the end of September. Within this market environment, bond funds suffered negative returns in the first quarter followed by a rebound in the second quarter. Corporate bond funds are generally down 1% to 2% on a year-to-date basis.

Seeds Core Fixed Income currently includes four fixed income products to provide well-diversified, ESG-integrated taxable exposure. In the third quarter, the BlackRock Systematic ESG Bond Fund and TIAA-CREF Core Impact Bond Fund performed in line or better than the benchmark. The iShares Advanced Total USD Bond Market ETF was a slight underperformer. We made no changes to the allocation during the quarter.

Table 5.

Seeds Core Fixed Income Returns		
Fund Name/Ticker	**Three-month**	**YTD**
BlackRock Systematic ESG Bond Fund (BIIIX)	0.04%	-1.68%
iShares Advanced Total USD Bond Market ETF (EUSB)	0.02%	-1.38%
TIAA-CREF Core Impact Bond Fund (TSBHX)	0.06%	-1.00%
iShares ESG Aware 1-5 Year USD Corporate Bond ETF	0.03%	0.00%
Vanguard Inflation Protected Securities Fund (VAIPX)	1.69%	3.42%
Seeds Core Fixed Income	**0.30%**	**-0.16%**
Bloomberg Barclays US Aggregate Bond Index	***0.05***	***-1.55%***
AB Municipal Impact/SMA*	**-0.32%***	**0.79%**
Bloomberg Barclays Municipal Bond Index	***-0.27%***	***0.79%***

Source: Company reports as of Sept. 30, 2021, Bloomberg. Fund returns are net of fund expense ratios. (*)SMA Returns are gross of fees. See Fund Prospectuses and Websites for more information.

Seeds has partnered with best-in-class investment managers known for their fixed income investing and ESG focus, including BlackRock, iShares, and Nuveen. We continually engage with each portfolio management team to understand their investment processes and ensure each approach—and the collective of approaches—reasonably aligns with Seeds' overarching investment philosophy.

BlackRock Systematic ESG Bond Fund (BIIIX). The fund provides intermediate core bond exposure across fixed income sectors and instruments. The fund selects corporate bonds of companies that generate positive societal impact outcomes. In addition to ESG integration, the fund screens out controversial sectors including weapons, oil sands, thermal coal, nuclear weapons, and tobacco.

Shares Advanced Total USD Bond Market ETF (EUSB). The ETF invests in investment grade and high-yield bonds of issuers with leading ESG practices. It also applies screens to avoid companies with low ESG ratings and controversial sectors including fossil fuels.

iShares ESG Aware 1-5 Year USD Corporate Bond ETF (SUSB). The ETF seeks to track the investment results of an index composed of U.S. dollar-denominated, investment-grade corporate bonds having remaining maturities between one and five years and issued by companies that have positive ESG characteristics while seeking to exhibit risk and return characteristics similar to those of the parent index.

TIAA-CREF Core Impact Bond Fund (TSBHX). The fund is actively managed and invests across the investment grade USD fixed income market. It targets companies with sustainability leadership and/or direct or measurable environmental and social impacts.

Vanguard Inflation-Protected Securities Fund Admiral Shares (VAIPX). The fund seeks to provide investors inflation protection and income consistent with investment in inflation-indexed securities. The fund invests primarily in Treasury inflation-protection securities, and provides unique diversification benefits vs. other fixed income investments.

Alliance Bernstein Municipal Impact SMA. AB Muni Impact invests in issues that deliver a positive social and environmental impact, with a focus on underserved and low socioeconomic status communities. It is a high-quality, intermediate portfolio, with the ability to invest selectively in lower-rated bonds. Almost 84% of holdings are rated A or better. Key areas for investment include education, mass transit, water/wastewater, and health care.

Disclosures

This commentary was written by members of the investment committee at Seeds Investor LLC ("Seeds"), a Registered Investment Adviser located in New York State, headquartered at 311 W. 43RD Street, New York, NY 10036. Tel. 212-287-7370. This document is for your private and confidential use only and not intended for broad usage or dissemination. The commentary is not intended as specific advice and does not constitute an offer to sell securities. Consult your financial professional before making any investment decision. Seeds is an investment adviser and offers asset management services. Advisory services are only offered to clients or prospective clients where Seeds and its representatives are properly licensed or exempt from licensure.

Past performance is no guarantee of future results. Gross returns do not reflect the deduction of any expenses, including trading costs, and are presented as supplemental information to net returns. Each client's returns will vary based on the client's actual portfolio holdings and the actual fees charged to the account. Seeds began managing advisory client assets in March of2020. Gross of fee since inception returns will be reduced by investment advisory fees and other expenses that may be incurred in the management of the account.

Using the effect of investment advisory fees on the total value of a client's portfolio assuming (a) monthly fee assessment, (b) $1,000,000 investment, (c) gross returns as shown in table 1 and (d) the highest possible annual investment advisory fee of 0.75% would produce for the time period shown returns of 21.7%, 19.5%, 18.6%, 17.5%, 17.3%, 13.9%, 11.5%, 11.1%, 8.9%, 8.2%, 8.0%, 7.3%, 6.8%, 4.8%, 4.3%, 4.1%, 2.0%, -1.6%, -2.3%, -5.0%, -5.3%, -5.5%, -8.7%, and -13.7%, based on the holdings above, respectively. The advisor's applicable fees are described in Part 2A of the Form ADV. Diversification/asset allocation does not ensure a profit or guarantee against a loss. Please contact your financial professional for your actual historical returns, as well as the reporting of all balances and securities transactions.

AllianceBernstein Municipal Impact Fixed Income is a strategy managed by AllianceBernstein L.P. ("AB"). All portfolio statistics, characteristics and holdings are subject to change. There can be no assurance that any investment objectives will be achieved.

Product Definitions

Mutual Funds - Mutual funds are investment companies that pool money from many investors and invest it based on specific investment goals. Mutual funds raise money by selling their own shares to investors. The money is used to purchase a portfolio of stocks, bonds, short-term money-market instruments, other securities or assets, or some combination of these investments. Each share represents an ownership slice of the fund and gives the investor a proportional right, based on the number of shares he or she owns, to income and capital gains that the fund generates from its investments. All mutual funds have internal expenses that lower your investment returns, details of which can be found in their prospectuses.

ETFs - Exchange-traded funds (ETFs) combine aspects of mutual funds and conventional stocks. Like mutual funds, ETFs are pooled investment funds that offer an investor an interest in a professionally managed, diversified portfolio of investments. But unlike mutual funds, ETF shares trade like stocks on stock exchanges and can be bought or sold throughout the trading day at fluctuating prices. In addition to any fees you may pay, ETFs have expense ratios, like mutual funds, calculated as a percentage of the assets you have invested. They generally have lower internal expenses than traditional Mutual Funds. In general, actively managed ETFs cost more than passively managed index ETFs. In rapidly failing markets, however, ETFs may decline much faster than their actual holdings or the indexes that they track.

Indices Definitions

The S&P 500 Index is a market capitalization-weighted Index of 500 widely held stocks often used as a proxy for the stock market. It measures the movement of the largest issues. Standard and Poor's chooses the member companies for the 500 based on market size, liquidity and industry group representation. Included are the stocks of industrial, financial, utility, and transportation companies.

Barclays US Aggregate is an index is composed of the BarCap Government/Credit Index, the Mortgage-Backed Securities Index, and the Asset-Backed Securities Index. The returns we publish for the index are total returns, which includes the daily reinvestment of dividends. The constituents displayed for this index are from the following proxy: iShares Core US Aggregate Bond ETF.