IMPACT INVESTING AT WILLIAM BLAIR

Our Journey to a Sustainable Future

William Blair

Our Journey to a Sustainable Future

As investors and advisors who focus on our clients' long-term success, sustainability is central to how we assess the risks and opportunities facing our clients.

We are on a continuing journey to explore how environmental, social, and governance (ESG) factors, impact investing, and corporate social responsibility inform the ways we create value for our clients, colleagues, and communities.

Across our business lines, we serve a diverse set of clients and stakeholders—and provide distinct services and perspectives. As a result, our commitment to sustainable and responsible investing manifests itself differently in each part of our business.

The ways in which we are incorporating sustainability principles into our investment and advisory services are continually evolving, along with the changing ESG issues affecting companies and investors. That's why we believe that investing for a sustainable future is a journey that we will always be on.

We invite you to learn about the progress we have made on this journey so far.

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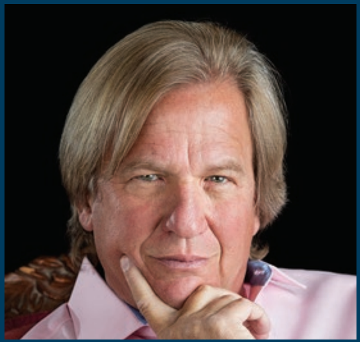
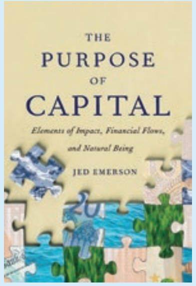


Impact With Authenticity

When William Blair began evaluating its approach to sustainable and impact investing, we sought input not only from each of our business units, but also across generations and roles within the firm. But to think through this vitally important and complex topic from all the relevant angles, we knew that we needed diverse perspectives from outside our firm as well.

That is why we invited Jed Emerson to help guide our discussion about what sustainable and impact investing means for William Blair. Jed is one of the world's most respected and innovative thinkers in impact investing, social entrepreneurship, and strategic philanthropy. Originator of the concepts of Blended Value and Total Portfolio Management, Jed has extensive experience advising funds, firms, social ventures, and foundations pursuing financial performance with social/environmental impact.

Here is an excerpt of our conversation with Jed about the challenges and opportunities financial services firms face when developing their approaches to sustainable and impact investing, and how these themes are implemented at William Blair.



Jed Emerson is the author of eight books on social entrepreneurship and impact investing. His latest, *The Purpose of Capital: Elements of Impact, Financial Flows and Personal Being*, explores the historical roots of mankind's understanding of capital, investing, and wealth management, connecting how we think about finance with how we think about our lives, world, and ultimate, personal purpose and impact.

Q. Why is it important for asset managers and other financial services providers to think about impact and sustainability issues?

Across the industry, firms are coming to grips with the limitations of a traditional approach to finance—one that defines value too narrowly by looking only at financial considerations. Whether driven by clients or internal decision-makers, firms are realizing that they aren't fully achieving the *purpose of capital*[1] if they fail to account for the social and environmental impact of their investment decisions.

It's impossible to disaggregate financial considerations from environmental and social impact because they are two sides of the same coin. One doesn't have to look any further than supply chains being disrupted by hurricanes or increasing employee turnover caused by unsustainable workforce practices to realize that "off-balance-sheet risk" has a material impact on a company's financial performance. Astute investors and their advisors are increasingly aware that impact and sustainable investing practices are central to the future of finance.

Q. What are some common mistakes that firms make when thinking about impact and sustainable investing?

With more than $12 trillion in the United States alone invested according to sustainable, responsible, and impact (SRI) strategies, there's no denying the importance of these themes to asset managers and their clients. Unfortunately, many firms mistakenly view this as a trend—or as a marketing opportunity that can be addressed by rolling out a few new products or by acquiring a team that focuses on SRI.

Simply put: Many firms are trying to buy a seat at the table rather than doing the hard work of building their own table—one that is authentic to their culture and the way they engage clients.

Rather than seeing it as a chance to reposition some of their offerings to capture additional assets, firms need to realize that investing with impact requires a fundamental rethinking of what it means to be a successful investor. This involves exploring challenging questions about the nature and purpose of capital, as well as rethinking how you define return and how you approach conversations with clients about performance.

Another mistake firms make is thinking that sustainable and impact investing is the purview of just one department or a dedicated team within each department. Because these issues are fundamental to the future of finance, this framework of thinking should be integrated across the firm. Other firms make the opposite mistake of thinking the company needs to have a monolithic, corporate-wide view of "what impact investing means to us." Instead, firms should realize that how these principles manifest themselves will vary by asset class and by client.

Q. Why were you excited about the opportunity to work with William Blair?

When William Blair told me about the journey it was on, it was clear the firm wasn't looking simply to latch on to best practices that other firms in the industry had started to adopt. Instead, William Blair asked me to help the firm find its own path.

William Blair was willing to do the hard work to explore the nature of the value the firm brings to clients across all of its business lines. William Blair approached the process knowing there was no playbook for how to implement impact and sustainable investing. Rather, the firm was committed to creating its own playbook in an authentic way.

Furthermore, I believe that firms like William Blair—global, privately owned boutiques focusing on fundamental investment analysis and achieving each client's definition of success over the long term—are uniquely positioned

1. Growing numbers of investors are interested in the practice of exploring more deeply the fundamental purpose of capital. We're pleased our senior advisor, Jed Emerson, has focused on this theme in his latest book, *The Purpose of Capital: Elements of Impact, Financial Flows and Natural Being*. We are reflecting on these themes in William Blair's work as well.

to implement sustainable and impact investing principles at scale, and to do so with integrity.

Much of sustainable and impact investing is, at its core, a form of solid, fundamental investment analysis. But rather than analyzing just the company's financial performance, you're opening the aperture and looking at a broader set of considerations to gain a more complete picture of the risks and opportunities facing the company. Sustainable and impact investors realize a company's entire story can't be told by just the numbers that appear on financial statements, and throughout its history William Blair has been dedicated to understanding these broader stories.

Q. What were some of the most important questions William Blair needed to address at the outset of this journey?

When we began the process with the team at William Blair, one of the first questions we asked was, "How do we understand what sustainable and impact investing truly is?" Rather than using the industry-standard definition as a starting point, we set out to define it in a way that is authentic to William Blair's values and way of thinking as informed by the best industry approaches.

We then looked at the firm's current practices and policies to see how those lined up with that definition. After talking with folks across the firm, and particularly in the institutional asset management group, I was struck by how much William Blair was already incorporating sound sustainable and impact principles into its investment process. William Blair wasn't enunciating these things as being sustainable- or impact-focused initiatives per se, but it was clear that many of the elements of how William Blair goes about the business of investing resonate with a sustainable or impact approach.

The next step was to highlight these principles and think about how they could be pulled through to all of the firm's different business units and more clearly articulated in the firm's formal practices. A firm like William Blair provides a broad range of services and works with an incredibly diverse set of clients and other stakeholders, so it was important that we took an "inside-out" approach to determine how these principles should be applied in each area of the firm.

We also spent a lot of time discussing how William Blair could help its clients think through what these issues mean for them. The framework for these conversations is going to differ when you're working with an institutional investor versus an individual investor or a private foundation. From an investment banking perspective, the issues that are going to be relevant to a founder-led industrial company looking to execute a dividend recapitalization are going to be different than the issues that a venture-backed biotech company preparing for an IPO should be considering.

Q. What are the next steps for William Blair on its journey of sustainable and impact investing?

The issues that are relevant to companies from an environmental, social, and governance perspective are constantly evolving. This has been the case since investors in the Dutch East India Company, one of the first publicly traded companies, started raising concerns about its involvement in piracy in the 1600s. There's no way of knowing what new issues may materially affect a company's opportunity set and financial performance down the road. So that's why firms, like William Blair, that are truly focused on their clients' long-term success need to take a broad view and understand that a company's impact is inextricably tied to risk and return.

William Blair correctly views ESG and sustainable investing as a continuing journey, rather than an exercise that you complete once every five or 10 years. The questions William Blair has begun exploring regarding the purpose of capital and the nature of value will lead to further questions about how William Blair can best help clients achieve their desired impact across their portfolios.

The answers to these questions will vary across William Blair's business units—and evolve over time. Each unit is identifying ways that it can implement practices today that are relevant to clients and aligned with William Blair's approach to creating long-term value through that specific line of business. As William Blair and its clients continue on this journey, together they will discover new opportunities to achieve that vision. WB

"William Blair correctly views ESG and sustainable investing as a continuing journey, rather than an exercise that you complete once every five or 10 years."

Achieving True ESG Integration Throughout Our Investing Process

By incorporating sustainability and corporate governance factors into our fundamental analysis, we're working to create a more complete picture of the risks and opportunities facing companies today and in the future.

As an active manager whose heritage is built on rigorous, fundamental analysis, environmental, social, and governance (ESG) considerations have always informed our investment decisions. We have long realized that these factors have a meaningful impact on a company's ability to create sustainable value, so our core investment philosophies and processes are naturally aligned with ESG integration and sustainable investing principles.

But as the link between off-balance-sheet risk factors and a company's financial performance has become exceedingly clear over the past decade, we realized our need to be even more intentional and systematic in how we integrate ESG factors into our investment process. These efforts, which are still in their early stages, are being driven by our relentless pursuit of creating a fuller picture of the risks and growth opportunities facing the companies we invest in as well as our desire to further align our capabilities with our clients' evolving objectives.

We work with some of the world's most sophisticated institutional investors across Europe, North America, and Asia, and their input has been instrumental in guiding our continuing journey to develop an approach to ESG integration that aligns with our unique view of quality, materiality, and sustainable value creation.

Enhancing Our Search for Sustainable Value Creation

Across our fundamental equity strategies, our investment philosophy is based on identifying quality companies that are able to produce excess returns on invested capital over time and use those returns to control their destiny—a concept we refer to as sustainable value creation. We believe that a company's ability to do this is inextricably and increasingly linked to ESG factors, whether it's developing environmentally sustainable new products, improving safety for workers across the supply chain, or enhancing transparency at the board level.

ESG integration is also increasingly relevant to our fixed income strategies. As fixed income investors, ESG factors provide a valuable lens through which to evaluate the quality of company management and corporate culture, in addition to cash flows, the balance sheet, and overall business strength. Most important, we believe companies can use sustainable practices to reduce their operating risk, enhancing the risk-adjusted returns of their bonds.

The journey to deeper, authentic ESG integration at William Blair is a continuing one—and it's central to our mission to continually improve as investors.

Sustainable Sources of Growth

Historically, the financial benefits for companies of implementing sustainable practices tended to involve mitigating exposure to off-balance-sheet risks or reducing operating costs—at least that was the perception by investors. But increasingly companies and investors realize that sustainability can have powerful implications for growth.

For example, a global athletic apparel and footwear company recently started commercializing more recyclable materials in its products. This not only improved the company's risk profile from both an environmental and social perspective, but also gave the company more pricing power with consumers who value environmentally conscious brands. This type of product innovation and brand positioning is particularly important for millennial consumers.

While third-party ESG ratings frameworks provide valuable high-level data and promote increased transparency, we know that these metrics don't tell the whole story. Because they are based largely on corporate disclosures, publicly available data, and headlines, these ratings aren't able to convey the nuance of the factors that are affecting a company's ESG profile—or assess how material these factors are to financial performance. Furthermore, both the quality and availability of ratings data vary significantly by region and market capitalization. In fact, approximately 50% of William Blair's small-cap emerging markets universe isn't covered by traditional ESG ratings frameworks.

The limitations of third-party ESG ratings create challenges for investors—while also creating tremendous opportunities for active managers like us. Digging deeper to find information that isn't readily available and scrutinizing that information to determine what it truly means for a company's prospects is the essence of fundamental, bottom-up research. That's why we believe that by developing a more thoughtful, nuanced approach to ESG research, we can create significant value for our clients.

Rather than simply relying on third-party ESG ratings to shape our view on a company's exposure to extra-financial risks and opportunities, our research analysts are developing relationships with corporate management teams in different sectors to understand how culture and sustainability align with longer-term strategy and financial performance.

Some traditional ratings frameworks may penalize majority-owned companies simply because their ownership structure doesn't align with global corporate governance standards. We have found, however, that many of these companies—particularly founder-led firms in developing markets—have a history of prudent management and strong value creation. Corporate culture and behavior are important elements of the broader governance assessment, so they should be factored into fundamental analysis.

Limitations of Third-Party ESG Ratings

Third-party ESG ratings provide valuable data points, but they don't tell the whole story. That is why we conduct rigorous, fundamental analysis to look beyond the ratings to assess a company's true risk exposure and growth opportunities related to ESG factors.

Inconsistent Coverage

Disclosure of ESG data is more consistent and extensive among large-cap companies and in developed markets. As a result, a large portion of the small-cap and emerging markets investible universe lacks ESG ratings.

Short Histories

Widespread initiation of ESG ratings is a relatively recent phenomenon. This lack of historical data limits the ability to back-test ratings to find correlations with stock performance.

Immateriality

Many ratings systems don't appropriately weigh the factors that are most or least material for specific industries and companies.

Lack of Nuance

Because ratings are based largely on corporate disclosures and other publicly available data, they often provide an inappropriately black-and-white view of a company's sustainability practices.

Backward Looking

Most ratings provide a point-in-time look at a company's sustainability practices without taking into account progress the company has made in resolving any issues or new initiatives that are in development.

Focusing on Materiality

Not all ESG factors are equal in terms of their influence on a company's financial performance. In fact, the materiality of specific ESG factors varies significantly from industry to industry. That's why our approach to ESG integration starts with determining which ESG factors we believe are material for a given industry.

We have spent a significant amount of time exploring industry-specific ESG factors that allow us to make more informed decisions based on our investment philosophy and client objectives. Part of this process involved reviewing the provisional materiality framework developed by the Sustainability Accounting Standards Board[2] and bringing in experts from sustainability-focused research partners to sharpen our analysts' thinking in terms of materiality assessments. Then, industry by industry, we held internal cross-team discussions to identify which ESG factors to consider in our research and decide how we would begin to prioritize those factors.

To ensure that the material factors become ingrained in our research process, analysts address material ESG factors when submitting investment recommendation reports in Summit, our proprietary research platform. Furthermore, our analysts ensure that their discussions with management teams address these questions, focusing on momentum, including improvements and challenges the company has faced in implementing sustainable practices.

Creating Deeper, More Authentic ESG Integration

The risks and opportunities companies face related to factors such as climate change, demographic shifts, regulatory pressures, and new expectations among customers, workers, and other stakeholders are constantly evolving. Thus, we believe it's important to continually evaluate and improve our efforts to fully integrate ESG factors into our fundamental research.

Creating deeper ESG integration in a way that is authentic to William Blair's investment philosophy is a continuing effort that is occurring at all levels of our

2. Sustainability Accounting Standards Board Provisional Standards

Defining Materiality: Healthcare Providers and Services

Summit, our proprietary research platform, includes questions about the ESG factors that our analysts have determined are the most material to the financial performance of each sector we cover. Shown below are the factors we focus on for healthcare providers and services companies.

Customer Well-Being	• Has the company received inordinate observations or citations from the FDA as documented in form 483? • Has a company product been the object of an FDA recall? • Has the company historically been the object of an inordinate amount of FDA/other regulatory violations? • Does the company engage in animal research/stem cell research?
Supply Chain Management	• Does the company have adequate controls/audit procedures to supervise the activities of third-party suppliers/service providers—raw materials, CDMOs, CROs, distributors, HCPs?
Corporate Culture	• Values dissemination — Does the company have a code of ethics? — How does the company define and communicate values and maintain integrity across the firm? — Does the culture create a competitive advantage? • Fraud prevention (risk management) — What tools are in place to prevent, detect, and monitor fraud/bribery and human rights violations within the organization and supply chain? — What is the company's exposure to high-risk geographies as it relates to bribery and corruption (possibly defined by Transparency International's Corruption Perception Index)? • Does the company promote a "patient first" culture?

organization—from Stephanie Braming, William Blair's global head of Investment Management, to our portfolio managers and analysts, who are traveling around the world to meet with corporate management teams to learn about their sustainability practices and strategic priorities.

As we continue making progress on our ESG journey, some of the initiatives that we are investing in or exploring include:

Leveraging our industry materiality framework

Our materiality framework has proved to be a valuable tool for informing our analysts' and portfolio managers' conversations and decision-making about companies and industries. To build on this momentum, we are identifying ways to embed ESG considerations more systematically in investment decisions and ongoing company due diligence.

Further establishing and implementing our proprietary ESG ratings system

Building on our materiality framework, we are developing a proprietary qualitative ratings system that is fully aligned with our views on the ESG factors that affect company performance by industry. In addition to broadening our analysis beyond third-party data, over time our ratings can help track momentum in corporate sustainability profiles and provide additional context for investment performance and risk analytics.

Enhancing our data-capturing tools

The quantity of data about companies' ESG characteristics available to us—through third-party sources and our fundamental research efforts—is increasing rapidly. We are continually investing in Summit and our other technology tools to improve our ability to capture and categorize this information in a way that makes it more useful for our analysts and portfolio managers.

Evolving our approach to proxy voting and promoting good corporate governance principles globally

We take seriously our responsibility to monitor the effectiveness of a company's management and exert influence on governance practices, as well as promote enhanced transparency around material environmental and social factors. In addition to improving our proxy voting activity reporting, we have implemented voting guidelines that are both focused on financial returns and consistent with the objectives of sustainability-minded investors. In 2018 we joined the Investor Stewardship Group to help promote its new framework of basic investment stewardship and corporate governance standards for U.S. institutional investors and boards of directors. This follows our existing commitments to stewardship codes in the United Kingdom, Japan, and Korea. WB

Our Global Commitment to ESG

United States

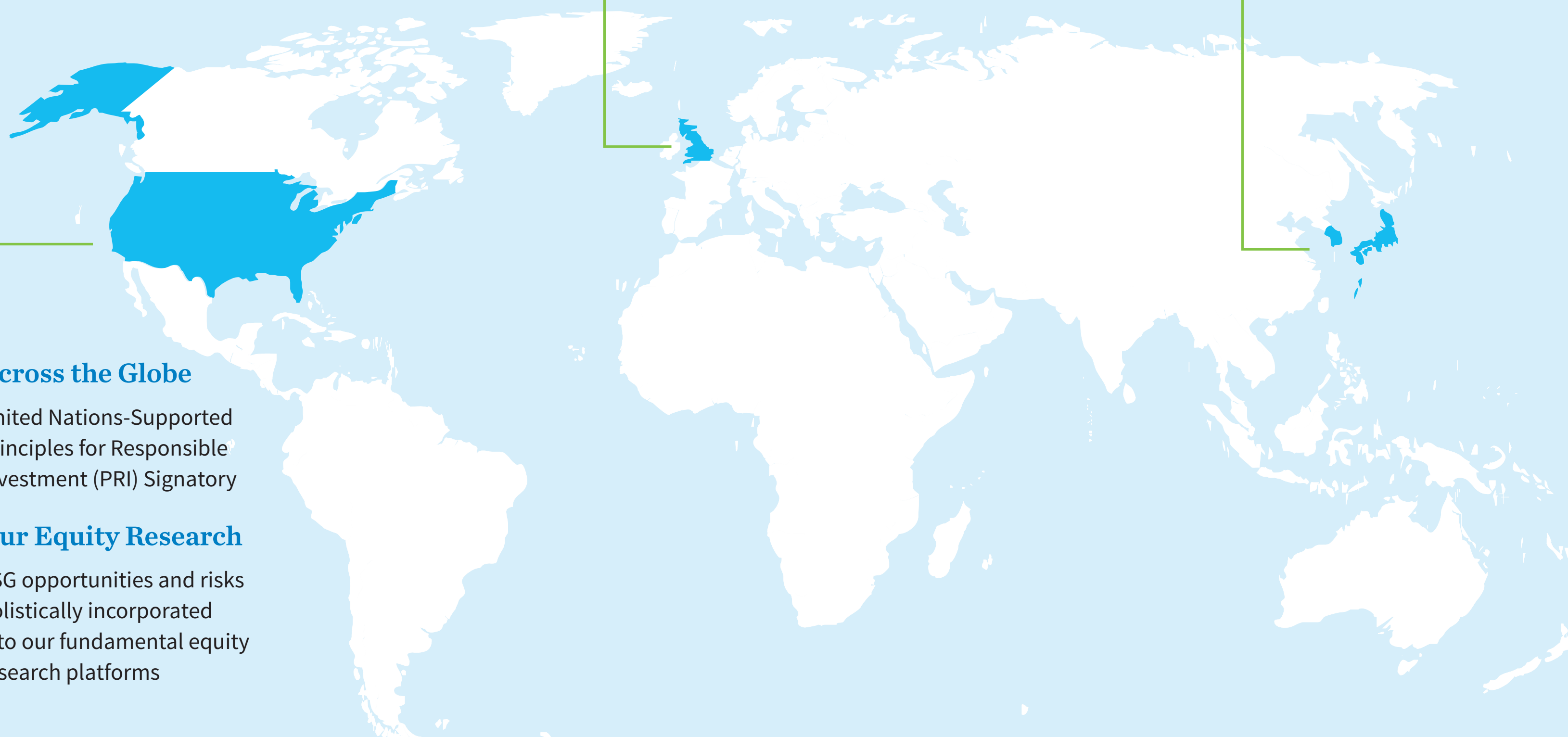
Investor Stewardship Group member
(Framework for U.S. Stewardship and Governance)

United Kingdom

Tier 1 U.K.
Stewardship Signatory

East Asia

Japan and Korea
Stewardship Codes



Across the Globe

United Nations-Supported Principles for Responsible Investment (PRI) Signatory

Our Equity Research

ESG opportunities and risks holistically incorporated into our fundamental equity research platforms

Inspiring the Purpose of Capital

The proliferation of ESG and impact-focused strategies and products has created numerous options for *how* to make an impact with our clients' capital. We believe, however, that all of these conversations should start with *why*.

Each individual and family who works with us has a unique set of values and priorities that guides not only their financial decisions but all aspects of their lives. That's why our approach to sustainable and impact investing in Private Wealth Management, while optional, can be completely tailored to each interested client's personal vision.

As wealth managers, our mission is to enable all capital to have impact. We do this by guiding clients through the process of articulating their priorities and then exploring the possibilities for deploying their capital in ways that align with those values. For some clients, this means incorporating sustainable and impact principles across all aspects of their portfolio and balance sheet. For others, it means creating a philanthropic foundation or dedicating a portion of their portfolio to making a social impact.

There is no one right way to make an impact. By having meaningful conversations with our clients about their values and offering multiple ways to activate their capital to support those values, we help clients align their financial goals and personal vision.

Understanding the New Reality of Impact Investing

In guiding conversations with clients about sustainable and impact investing, we seek to address any misconceptions clients may have and present opportunities to express their values through their capital. One of the most common misconceptions is that seeking to make an impact with our clients' capital requires giving up financial returns. However, an abundance of evidence shows that incorporating ESG[3] or SRI[4] doesn't cause performance to deviate significantly from general market returns.

Some investors also mistakenly think that impact investing is a binary proposition—they must choose between focusing on financial considerations or values-based considerations. As a result, investors may think that the only way to make an impact with their capital is by starting a foundation or earmarking a portion of their portfolio for social or philanthropic purposes. In today's landscape, however, financial and impact investing can be viewed as a continuum, not an either/or choice. There are many ways to blend financial and non-financial considerations into investment decisions. We are able to leverage our internal intellectual capital as well as the research and resources of partner organizations, to either exclude certain securities, sectors, and industries, or to proactively integrate dedicated third party asset managers, to execute on a total portfolio management strategy.

As wealth advisors, our job is to understand each client's purpose of capital and explore the possibilities for deploying capital in a way that advances those values.

3. Deutsche Wealth & Asset Management and Hamburg University, "ESG and Financial Performance: Aggregated Evidence From More Than 2,000 Empirical Studies." 2015.
4. Nuveen TIAA Investments, "Responsible Investing: Delivering Competitive Performance." 2017.

Impact Across the Investment Continuum

Today's investment landscape provides numerous ways to blend impact goals and financial returns. The impact investing industry is still relatively young, and as this ecosystem continues to mature and evolve, innovative approaches will emerge, further expanding investors' opportunities to align their impact and financial goals.

			Impact Investment		
Traditional	**Responsible**	**Sustainable**	**Thematic**	**Impact-first**	**Philanthropy**
Competitive Returns					
	ESG Risk Management				
		ESG Opportunities			
			High-impact Solutions		
Finance-only	The New Paradigm				**Impact-only**
Limited or no focus on ESG factors of underlying investments	Focus on ESG *risks* ranging from a wide consideration of ESG factors to negative screening of harmful products	Focus on ESG *opportunities*, through investment selection, portfolio management, and shareholder advocacy	Focus on *one or a cluster of issue areas* where social or environmental need creates a commercial growth opportunity **for market-rate or market-beating returns**	Focus on *one or a cluster of issue areas* where social or environmental need requires **some financial trade-off**	Focus on *one or a cluster of issue areas* where social or environmental need requires **100% financial trade-off**

Source: Bridges Ventures https://medium.com/impact-engine/the-spectrum-of-impact-investing-e34b0e4dc164

Historically, many investors took a "Do well first, then do good" approach to investing and philanthropy. Today, many investors are seeking to make an impact at all stages of their lives and careers. We will help catalyze all capital—whether a client wants to invest their taxable, financial capital with ESG or impact strategies, invest their tax-exempt capital with mission- aligned investments, or create strategic partnerships with entrepreneurs and venture backers who are pursuing more than financial returns.

Customized Solutions for Achieving Impact

After we work with clients to define the purpose of their capital, we offer a sophisticated suite of services that allow clients to achieve that vision throughout their portfolio. These services and strategies are tailored to the unique goals of each investor.

Investment Policy Development

We guide clients through the development of an investment policy statement that includes clearly defined guidelines for how the client's goals will be achieved throughout the portfolio and how any impact-related considerations will be implemented. As part of this process, we help clients explore impact-related topics, such as shareholder engagement and aligning portfolios with the United Nations Sustainable Development Goals.[5]

Philanthropic Strategy

For clients with substantial philanthropic goals, we offer comprehensive services to maximize the donor's impact and enhance the connectivity between impact, grant making, investments, and family endeavors. In addition to advising on private foundations, trusts, donor-advised funds, and other tax-efficient charitable vehicles, we coordinate with the donor's family and key advisors to ensure alignment with the donor's vision.

5. United Nations Sustainable Development Goals.
https://www.un.org/sustainabledevelopment/sustainable-development-goals/

Case Study: Entrepreneurial Family Takes a Total Portfolio Approach to Impact

In 2018, a couple sold their successful life sciences company and turned to us for guidance in fully aligning the family's capital with their purpose and values.

Purpose of Capital

The family had a clearly articulated purpose for their capital: to power a more sustainable and equitable future. This purpose is built upon the cornerstone that "giving to others is not only an act of generosity but a requirement—an obligation upon the individual who is fortunate enough to have resources to help others." The family believes that all capital has impact and that all capital contributes to generating financial and societal value, irrespective of the type of entity or vehicle used to house the assets. The family sought to pursue the idea of blended value in a way that is truly and authentically integrated across all aspects of their lives, including how they invest, give, and engage.

Approach to Blended Value

We have the privilege of collaborating with the family through the process of defining the scope of their impact across entities, investing the assets with impact, and shaping their philanthropy. In addition to advising them on philanthropic strategies to support their cherished causes through grant-making, we also implemented investment strategies that align with the family's values across all of their tax-exempt and taxable vehicles. This included investing in impact-focused funds and managers while focusing on sectors, geographies, and companies that align with the family's vision and values.

Impact in Action

The next several years will be a remarkable period of storytelling for the family as investors and grantors, as well as for the countless individuals whose lives will be touched by the family's engagement. The family's impact will be local yet global, personal yet universal, and above all else, authentic to who they are.

Custom Portfolio Construction

We build portfolios from the ground up based on each client's objectives. In addition to incorporating William Blair's proprietary investment strategies and external managers, we can apply negative or positive screening to align the portfolio with the client's desired impact.

External Manager Selection

Through our open architecture platform, we rigorously research and provide clients access to external investment managers across asset classes that offer dedicated impact strategies and/or have a track record of effectively integrating ESG factors into their investment decisions.

Fundamental ESG Integration

Building on our long heritage as fundamental investors focused on sustainable value creation, we are continually enhancing our ability to integrate environmental, social, and governance (ESG) factors into William Blair's institutional investment management strategies. WB

Investing With Impact: Perception vs. Reality

Perception	Reality
Achieving a positive impact requires foregoing optimal financial returns	Evidence shows that incorporating ESG[6] or SRI[7] practices into investment decisions doesn't have a negative impact on performance.[8]
Financial and impact investing are binary choices	Investing is a continuum; there are many ways to blend financial and non-financial considerations into investment decisions
You must "Do well first, then do good" to be an effective philanthropist	Across all phases of their lives and careers, people have more opportunities today to use their wealth, time, and skills to make an impact

6. Deutsche Wealth & Asset Management and Hamburg University, "ESG and Financial Performance: Aggregated Evidence From More Than 2,000 Empirical Studies." 2015.
7. Nuveen TIAA Investments, "Responsible Investing: Delivering Competitive Performance." 2017.
8. US SIF. https://www.ussif.org/performance

Maximizing Value in an Evolving Landscape

By guiding companies in understanding how their ESG exposures will be viewed by investors and acquirers, we're focused on positioning our clients for success in today's capital-raising and dealmaking environment.

Advising companies about how they will be evaluated by potential investors or acquirers has always been central to our role as investment bankers. As the breadth of issues that matter to investors and acquirers has expanded to include environmental, social, and governance (ESG) factors, the scope of our advice is broadening as well.

Across the universe of potential transaction partners—including institutional investors in public equity, strategic acquirers, private equity firms, and family offices—providers of capital understand that a company's ultimate value is based on more than just financial considerations. That's why we're continually expanding and evolving our M&A and capital markets advisory services to increasingly integrate ESG and sustainability factors that could affect our clients' strategic opportunities.

Preparing and Positioning for Sustainable Success

As advisors to companies evaluating their opportunities to raise capital or exit the business, our job is to help them understand how the business will be viewed and valued by potential investors or acquirers. Traditionally, value drivers in these transactions have centered on growth rates, profit margins, competitive dynamics, opportunities for consolidation, and other purely financial or strategic considerations.

Over the past decade, however, investors and buyers have increasingly realized that ESG and other sustainability issues may have a meaningful impact on a company's value. As investment bankers, we have an opportunity to guide clients through honest and objective assessments of how potential counterparties will view their businesses through this lens.

Materiality is a valuable perspective to use when determining which ESG factors are most relevant to a company's operations and growth opportunities. To provide clients an initiation into ESG and materiality, we have developed an ESG primer, a resource to guide conversations about the state of ESG investing today and the growing importance of sustainability issues for investors. In addition, the primer describes the growing universe of third-party ESG ratings frameworks, which now comprises more than 150 ESG research providers. The primer includes information about ratings methodologies, benefits and considerations of participating in data requests, and implications of ESG scores.

It's our responsibility to guide clients through honest and objective assessments of how potential counterparties will view their businesses through every possible lens, including ESG.

A New Source of Value Drivers

The definition of value drivers in today's dealmaking landscape has expanded beyond purely financial and strategic considerations to include ESG factors. Listed below are some common characteristics that a publicly traded strategic buyer may consider when valuing a potential acquisition target.

Financial	Strategic	ESG
• Revenue growth rates • Profit margins • Visibility into earnings and cash flow • Customer acquisition costs • Cap-ex requirements • Tax exposure • Return on invested capital • Balance sheet strength	• Access to new end markets • Consolidation opportunities • Diversification of client base • Total addressable market • Cost-savings through synergies • Proprietary technology	• Environmental: carbon footprint; risk exposure to climate change • Social: workforce gender diversity; community engagement • Governance: transparency; corporate culture • Impact on ESG rating • Reputational risk

How ESG Factors Shape Exit Opportunities

While ESG factors are most directly applicable to publicly traded companies or ones preparing to go public, all companies—regardless of ownership structure or life cycle stage—should understand how sustainability considerations could affect their opportunities to be acquired or raise capital.

Below is a high-level overview of how ESG factors increasingly are shaping investment and acquisition decisions across the capital-raising and dealmaking landscape:

Initial Public Offerings

Companies preparing to access public equity markets need to understand how their sustainability practices and exposure to ESG-related risk factors could influence their valuations. Institutional investors, especially those focused on longer time horizons, are increasingly integrating ESG factors into their investment decisions. Whether using negative screening, third-party ratings, or more sophisticated fundamental analysis, investors are deploying a range of tools to ensure that their portfolios are aligned with the organization's values. There has been a proliferation of ESG-focused indexes, exchange-traded funds (ETFs), and strategies, so a company's potential market capitalization and investor base could be significantly limited by sub-par ESG practices. In addition, many governments and stock exchanges around the world are requiring enhanced reporting on ESG factors.

Strategic Buyers

Institutional investors' growing focus on ESG factors doesn't just affect companies that are looking to access public equity markets directly; it's also relevant to companies that may be acquired by a strategic buyer. When publicly traded companies evaluate an acquisition target, their due diligence process includes evaluating how the target's sustainability practices will affect the acquirer's ESG rating post-merger. In addition to evaluating an acquisition's direct impact on ESG ratings, strategic buyers will also think about what the acquisition will mean from a brand and reputational perspective.

9. Barron's, "Sustainable Investing is at a 'Tipping Point,' BlackRock Says." Oct. 26, 2018.

Large Asset Managers Raise ESG Expectations

Many of the world's largest asset managers, including BlackRock, Vanguard, and State Street, are using their influence to make ESG considerations higher priorities for the companies they invest in and giving investors more tools for deploying capital in ESG-related strategies.

BlackRock	Vanguard	State Street Global Advisors
$6.3 trillion in AUM	$4.9 trillion in AUM	$2.8 trillion in AUM
In January 2018, BlackRock announced that it expects companies to have robust ESG management and that it will double the size of its investment stewardship team (currently the largest of any global asset manager) to at least 60 over the next three years. In October 2018, the firm unveiled seven sustainable core ETFs, as well as a new ESG-focused analytics tools that investors can use across all BlackRock ETFs. BlackRock projects that the amount of funds in all ESG-focused ETFs will increase from $25 billion in 2018 to more than $400 billion in 2028.[9]	In August 2017, Vanguard took the unprecedented step of voting by proxy to require Exxon Mobil to report on its climate impact and risks. In September 2018, it unveiled two new low-cost ETFs centered on excluding companies engaged in industries such as alcohol, adult entertainment, tobacco, and weapons. In addition, the ETFs aim to avoid firms that fail to meet diversity, human-rights, and environmental standards.	In August 2017, State Street issued new climate-change disclosure guidance for companies emphasizing the need for discussion of climate-change scenario planning and its impact on the company's long-term strategy. State Street's "Fearless Girl" campaign, which started in 2017 when the firm installed the now-famous statue in New York's financial district, seeks to raise awareness about gender diversity on corporate boards. In September 2018, State Street announced that it will implement enhanced proxy voting guidelines in 2020 for companies with no women on its board of directors.

Source of AUM data: P&I Research Center, as of May 28, 2018.

Private Equity Funds

More financial sponsors are launching impact- or ESG-focused funds that provide capital and management expertise to companies that are driving positive social and environmental changes. In addition to these sustainability benefits, financial sponsors and their limited partners view these funds as alternative sources of attractive, low-correlation returns. Even financial sponsors without dedicated impact or ESG funds are increasingly incorporating sustainability into their investment decisions, especially for portfolio companies where the exit is expected to be an IPO or acquisition by a publicly traded company.

Family Offices

Single-family and multifamily offices are a rapidly growing force in the M&A landscape. *The Economist* estimates that there are between 5,000 and 10,000 family offices globally managing a combined $4 trillion of assets,[10] more than 20% of which is invested in private equity, through either direct investments or funds, according to data from UBS and Campden Wealth.[11] For many family offices, stewardship of the family's assets and legacy are primary considerations, and more than two-thirds of the world's family offices have been founded since 2000, during an era when ESG considerations became increasingly prominent.[12] As a result, there is a natural inclination among family offices to seek companies whose mission and culture align with the family's values, as well as to avoid investing in companies whose environmental and social practices may carry reputational risks for the family. WB

10. *The Economist*, "How the 0.001% Invest." December 15-21, 2018.
11. UBS and Campden Wealth, "Global Family Office Report 2018."
12. UBS and Campden Wealth.

Case Study: Investing in Upward Mobility in an Evolving Economy

Across industries, disruptive forces have rapidly altered the skills needed by employers. Penn Foster is dedicated to bridging this skills gap and fostering upward mobility for workers and their families through job-specific training and education programs.

Not Disclosed

PENN FOSTER

has been acquired by

BainCapital
Double Impact

2018

In May 2018, William Blair advised Penn Foster on its acquisition by Bain Capital Double Impact, the impact investing strategy of Bain Capital. Penn Foster's focus on helping workers in lower-paying jobs enhance their skills and improve their career prospects aligned with Bain Capital Double Impact's mission to invest in companies that are delivering social benefits.

"Practical education is the most powerful enabler of the sort of social and economic mobility that can transform families and communities. We believe that Penn Foster is well-positioned to be a crucial part of the solution to help close America's skill and equity gaps," said Deval Patrick, a managing director at Bain Capital Double Impact.

Searching for Long-Term Sources of Quality Growth

Across sectors, sustainability is an increasingly important factor that shapes the growth prospects of many of the companies in our coverage universe.

As providers of sell-side equity research, our goal is to generate value-added insights about the more than 600 companies we cover for buy-side asset managers and the asset owners they serve. Over the past decade, many asset managers and investors have increasingly realized that ESG factors and other sustainability issues can affect a company's growth prospects and financial performance.

We are continually working to tailor our research and institutional sales capabilities to meet the evolving needs of buy-side investors and to focus our analysis on the factors that are material to a company's performance. As a result, many of our analysts are looking closely at how ESG factors may be affecting companies in their research coverage.

At William Blair, our investment philosophy focuses on identifying companies with sustainable competitive advantages and strong management, which together can allow the company to achieve above-average growth over the long term. Because of this approach, sustainability is an increasingly relevant consideration for many of the companies that we cover.

Industry Spotlight: Apparel and Accessories

Dylan Carden, who covers the apparel and accessories industry at William Blair, explores some of the ways sustainability considerations and other ESG factors are affecting the consumer sector.

Q. How are sustainability themes influencing consumer preferences for apparel and accessories?

It's important to understand that, in the minds of consumers, sustainability isn't just about reducing your carbon footprint or treating your workforce ethically. Certainly those things matter to consumers, and their importance seems to grow every year. But concerns about using petroleum-based products in the manufacturing process or unsafe working conditions in garment factories have been part of the public consciousness for several decades.

One of the most interesting new developments of the past few years in the apparel industry has been that consumers are thinking more about sustainability in terms of buying products that are built to last and wanting to understand the product's value proposition in a broader, longer-term sense.

Many companies in the apparel industry have reputations for being wasteful in terms of stocking stores and then dumping unsold inventory once the new season's line is introduced. The growth of "fast fashion" about a decade ago only exacerbated this problem. But now the pendulum is swinging back the other direction. Today, consumers are buying fewer pieces of clothing, but they want those items to be higher-quality, longer-lasting, and more versatile.

In addition to concern about the wastefulness of turning over your wardrobe every season, this trend is being driven by multiple other factors, including a move toward minimalism from a fashion standpoint and spending constraints. Rapid inflation in

Our Equity Research Coverage

Our analysts seek to cover companies that have above-average growth prospects and above-average quality. Because of our long-term focus, sustainability is an important factor for many of the companies in our coverage universe, which includes more than 600 companies across the following sectors :

- Consumer
- Financial services and technology
- Global industrial infrastructure
- Global services
- Healthcare
- Technology, media, and communications

healthcare, education, and housing has significantly limited the amount that consumers have to spend on apparel, so people are being more judicious in what they buy. All of these trends are interrelated and they are pushing consumers to focus more on sustainability in a broader sense of the word."

Q. What changes are companies making in response to consumers' growing concerns about sustainability?

Companies across the consumer industry have no choice but to take these concerns more seriously. And this is playing out in many different ways across the apparel industry.

In the past, some luxury apparel companies would burn unsold inventory to prevent their goods from getting in the hands of discount distributors or resellers. Several luxury brands have recently stopped this practice because they realized how offensive it was to consumers who care about wastefulness. Also, given the rise of the shared economy and the growth of the consignment industry, luxury brands are being forced to come to grips with the fact that their goods will be resold.

Manufacturing denim has always been a resource-intensive process that involves toxic materials. Now some companies are making progress in developing less-toxic ways to manufacture blue jeans. Also, companies are promoting broader arrays of casual pants beyond blue jeans, including athleisure leggings and chinos. Much of this shift is driven by fashion preferences, but environmental concerns are playing a role, too."

Q. How are these themes playing out in terms of marketing and advertising?

From a marketing perspective, there's been a massive shift in the power dynamic between apparel brands and consumers in the past five years. In the previous

advertising cycle, mega-brands used their marketing power to shape prevailing fashion trends, but today consumers use social media and other tools to self-curate their views about where fashion is headed. The brands that are winning today are the ones doing a good job of listening to what consumers want.

Another major change in the marketing landscape is the growing importance of transparency. As consumers have become more conscientious in their purchasing decisions, they want more information about the brands they are buying. In addition to information about a company's practices related to environmental stewardship, labor relations, and community involvement, many consumers also want transparency about an apparel company's margin structure or pricing strategy, in some cases.

This trend may have important implications for companies' business models. Because of this transparency, consumers have more opportunities to purchase from companies whose policies align with the consumer's personal values.

When this alignment exists, consumers are more loyal and more willing to pay full price for these brands. This, in turn, leads to stronger, more sustainable margins, albeit from a smaller customer base. This is one of the reasons why it's increasingly hard to build a sprawling, massive brand in today's apparel landscape. WB

Many of the most successful apparel brands today are doing a good job of listening to what consumers want and providing transparency about the company's values and business practices.

Fulfilling Our Commitment to Clients, Communities, and Colleagues

Across all aspects of our firm, we are uplifting and inspiring best practices in philanthropy, employee engagement, governance, and the environment reflective of our values and our commitment to stewardship and sustainability.

Our commitment to corporate social responsibility informs everything we do at William Blair—from how we invest on behalf of our clients to how we invest in our people and communities. By aligning our business practices with our values, we seek to make a positive impact by supporting organizations that are addressing the most pressing issues facing our communities, creating a workplace culture that fosters diversity and inclusion, and being responsible stewards of the resources entrusted to us.

This dedication to community engagement and corporate citizenship is part of the heritage of our founders and we proudly continue today. We are continually looking for ways to build on this legacy and make it more relevant and meaningful for the evolving challenges of today's social, environmental, and business landscape.

Philanthropy: Investing in Our Community

We believe that investments in our community yield the greatest return. That's why we are committed to being a long-term partner to the communities in which we live and work. The mission of the William Blair & Company Foundation is to inspire the next generation of philanthropists and 100% of our philanthropy is inspired by our employees.

Each year our colleagues contribute to hundreds of charitable organizations through their time, investments, and leadership. We seek to empower their philanthropic visions by providing up to $11,500 per employee in annual matching gifts and offering one paid day off for volunteer work, in addition to firm-sponsored events and programs. Hundreds of employees serve in leadership roles on nonprofit committees and boards and nearly half of our employees participate in our philanthropic programs in some capacity.

In 2018, William Blair supported more than 800 charitable organizations through donations totaling nearly $5 million through the firm, our foundation, and employee contributions.

Building a culture that values diversity and empowers our people isn't just good for employee morale; it's essential to our company's growth and continued success.

Community Partner Spotlight: MAPSCorps

MAPSCorps provides students with summer jobs to collect and analyze community asset information, build STEM skills, and ultimately provide data to NowPow, an IT platform that matches people with healthcare and social service resources. William Blair is working with MAPSCorps to develop an alumni program and expand mapping to seven more Chicago neighborhoods by 2020.

The hallmark of our giving is our Community Partners program, through which we provide catalytic financial and volunteer support to organizations that are addressing issues related to education, healthcare, social services, and youth development around the world. Our current Community Partners in the United States are MAPSCorps and MetroSquash (Chicago); Reading Partners (New York); Real Options for City Kids (San Francisco); Nativity Prep School, Children's Melanoma Prevention Foundation, and New England Homes for the Deaf (Boston). Our international Community Partners include Hands On and Wrap Up London, and the Anne Frank Educational Centre in Frankfurt. Every two years employees nominate organizations for the firm's Community Partner grants and since its inception we have invested nearly $2 million through this grants program.

Workplace: A Culture That Empowers

Diversification has value beyond investment portfolios. In all aspects of our business, we believe that diversity of skills, experience, capabilities, and perspectives is essential for the innovative thinking that our clients demand from us.

We are committed to creating a culture based on diversity and inclusion. In addition, we are building a workplace environment that gives our people the tools, resources, and opportunities to unlock their potential and fulfill their personal missions. These efforts aren't just good for employee morale; they are fundamental to our company's growth and continued success.

To facilitate a community of diverse perspectives and backgrounds, we have implemented a targeted talent strategy designed to (1) increase the frequency, transparency, and relevance of conversations between employees and managers; (2) create clear firmwide guidelines for what is expected of our employees; (3) support ongoing learning and development opportunities; and (4) foster a culture in which all employees feel included in a community that embraces differences and values, and respects each individual.

A Great Place to Work

William Blair was named one of *Pensions & Investments*' Best Places to Work in Money Management six of the last seven years; one of the *Chicago Tribune*'s Best Places to Work in Chicago for the past nine years; and one of *Fortune*'s 30 Best Workplaces in Financial Services and Insurance in 2016.

As part of these efforts, we have also created three business resource groups—the Women's Alliance, the Veterans' Alliance, and the Pride Alliance. The business resource groups create solutions and support efforts around recruitment, retention, awareness, and community engagement of team members as well as the firm's efforts in diversity and inclusion and community engagement.

Governance: Building on a Strong Foundation

The sustainability of our business pays valuable dividends for our clients, our employees, and our community partners. The independence that comes with being an employee-owned firm, along with our strong balance sheet and diversified business model, allows us to remain steadfastly focused on our clients' success across market cycles. This stability is enhanced by the consistency of our leadership. We have had just five CEOs since our founding, and current CEO John Ettelson has served in the role since 2004. These foundational elements of our corporate structure are supported by robust policies and practices related to compliance training and business continuity.

Sustainability: Prioritizing the Environment

Sustainability is foundational to our business values as well as how we do business. Environmental sustainability is a priority for William Blair, and we are identifying and executing on ways we can have an innovative and important impact. Examples of this include our LEED-certified buildings, most recently our new global headquarters, which was built and designed to LEED gold standards. Whenever possible, we choose green materials and solutions for our buildings, such as our headquarters' Lutron lighting system that automatically dims when daylight is plentiful. In addition, our energy provider supplies us with 10% wind power. Our U.S. offices are rolling out composting programs to minimize our landfill trash stream, and we e-cycle or donate all of our outdated technology items. WB

Benchmarking for Success

As part of our effort to continually improve the effectiveness of our sustainability practices, we engaged a premier accounting and auditing firm to analyze how our efforts compare across the financial services industry. The benchmarking report will highlight material ESG factors and provide best practices for engaging employees and monitoring performance.

Our Philanthropy: By the Numbers

800+

Charitable organizations supported in 2018

Nearly $5M

Amount the firm, its foundation, and employees donated through our charitable programs in 2018

$11,500

Amount each colleague may receive in employee and board matching gifts

Identify the Purpose of Your Capital

At William Blair, we believe that all capital has purpose and that all capital can make an impact. Whether you invest in one of our proprietary strategies, draw insights from our equity research, work with our investment bank for capital-raising and advisory solutions, or entrust our wealth advisors with your personal capital, we are committed to delivering ideas and solutions to help you fulfill the purpose of your capital.

Whatever your vision is for your capital, we invite you to begin a dialogue with William Blair to explore ways that those values can be expressed with your capital and in all aspects of your financial life. WB

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Contact William Blair to learn how our professionals around the world can help you with your investment banking, investment management, and private wealth management needs: **info@williamblair.com**