

Counterpoint Global Insights

# Sustainability Research

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CONVERGENCE | MAY 2020

## Adaptation and Evolution

The best companies adapt. They build on a durable existing business by investing in options that pave a path for continued profitable growth. This is true not only for companies but for investment firms as well. Because markets evolve, we know that we have to be adaptive in how and where we seek opportunities. It is always “different this time”—it’s just a matter of degree.

At Berkshire Hathaway’s annual meeting in 2017, Warren Buffett noted a sea change in the investment landscape: today’s largest and highest-quality businesses flourish with little tangible capital. The following day, he again mentioned the idea and added that “I don’t think people appreciated it—at all.” Investors who fail to recognize the circumstances that create opportunity will find it harder to adopt strategies that succeed than investors whose beliefs match reality.

Accumulated intellectual property, including brands and patents, now creates more value for shareholders than manufacturing plants and storefronts. Communication channels that used to be closed to all but the richest advertisers are now open, supported by large follower counts, and reflective of a collective social consciousness. Today’s leading companies employ talented knowledge workers who create products with purpose. It is this sense of purpose that creates demand. Success requires cultural alignment between employees and customers. Done right, this alignment adds value to both constituencies and distinguishes a company from its competitors.

### Integration With Our Culture and Framework

We at Counterpoint Global make long-term investments in companies that we believe can realize a significant increase in market value over time as a result of enduring competitive advantages stewarded by capable management teams. Our culture combines a partnership mindset with a commitment to continuous learning, intellectual flexibility and self-awareness. We are willing to be different when necessary in order to strengthen our advantage. We seek these traits in company management. In our view, the most lasting value is created by executives who make thoughtful decisions that incorporate the needs of all stakeholders. Whether in capital allocation, corporate governance, operational excellence or regulatory compliance, our focus on sound practices is resolute.

Our study of unique businesses reveals that the ways management teams create value is changing. A railroad is much different than social media, and physical barriers to entry are much different than network effects. With the shift from tangible to intangible investments comes an expansion in the stakeholder base and change in the creation of competitive advantage. Smart management teams recognize these shifts, and appreciate what is required of them as they pursue profitable growth. Similarly, we have worked hard to understand these factors. As a result, a formalized Sustainability Research framework is now integrated into our investing process.

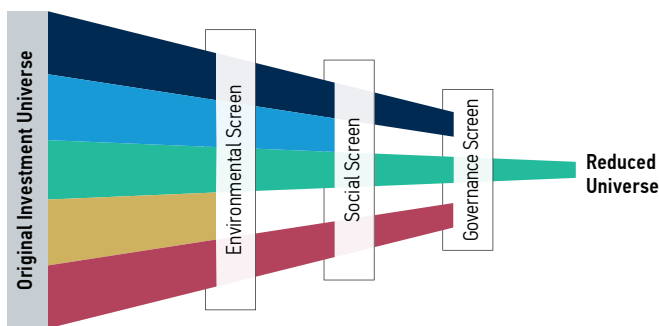
### Existing Limitations Provide Opportunity

Sustainability Research is not a separate methodology or exclusive from our core activities at Counterpoint Global. Our approach is additive to our existing investment process and to our anticipated investment returns. Human behavior is anchored on existing processes and relationships and is among the hardest things to change. We think the same holds true for investors. The implementation of an ESG methodology is failing at many investment firms because of a combination of inertia and a lack of understanding. This failure includes:

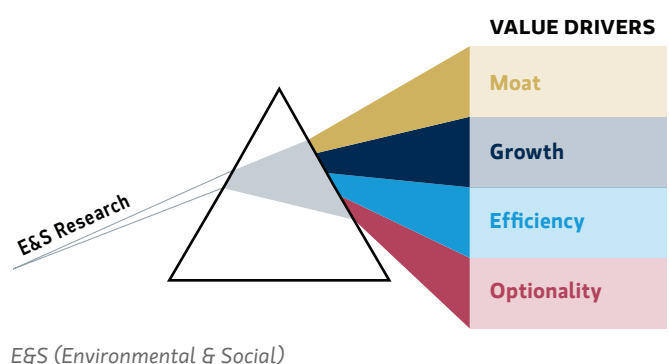
1. The inability to recognize a material regime shift in the investment landscape towards sustainability, providing a large opportunity with less competition;
2. Applying a revolutionary approach instead of an evolutionary one and disturbing what is “already working” in an investment process;
3. A reliance on underdeveloped, third-party metrics for implementation, pointing investors in the wrong direction; and
4. Assuming that sustainable investing results only in excluding companies from an investment universe rather than identifying companies with stocks that are expected to generate attractive returns.

The biases that these limitations create in the market are what we seek to exploit. However well intentioned, a sustainability index fund may include a natural resources company engaged in strip mining and exclude a company that has an unusual share class structure even if it has a management team with proper alignment and incentives. We prefer to exercise our own judgment rather than abide by the restrictions that others impose.

**Socially Responsible Investing:** Historically a reductive process



**Counterpoint Global:** Sustainability Research as an additive lens



## Leadership

Our Sustainability Research emerged from the creativity, passion and entrepreneurial spirit of one of our team members just as our Disruptive Change Research did fifteen years ago. Thomas Kamei leads our effort in New York by promoting awareness of sustainability trends across our organization. A student of architecture and design, Thomas pairs his understanding and vision of structural systems with a decade of experience investing in leading internet companies. His leadership has enabled us to collaborate with nonprofit and public sector stakeholders as well as to engage with the management teams of our current and prospective company investments.

## Sustainability Research in Practice

Our Sustainability Research has identified risks that other investors have underappreciated and investment opportunities they have overlooked.

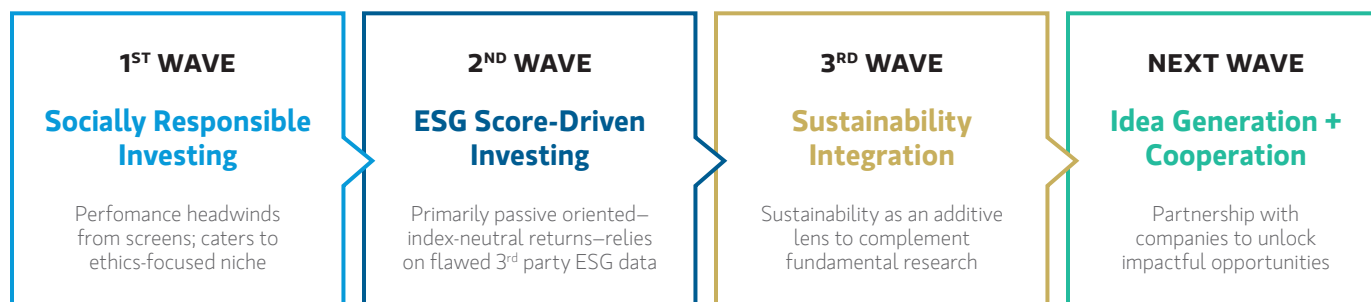
For example, let's start with **environmental issues**:

- RISK** Companies that produce goods that are difficult to recycle are struggling from increasing consumer and regulatory scrutiny.
- OPPORTUNITY** Companies that provide water and energy conservation services to customers, such as cloud computing datacenters, are flourishing as they help reduce operating costs for their customers.

The same point applies to **social issues**:

- RISK** Concerns about data privacy are emerging as expensive threats for many established financial services businesses.
- OPPORTUNITY** Decentralized financial innovations such as blockchain provide the potential for increased financial inclusion for low-income citizens in emerging markets.

Our Sustainability Research has helped us with governance as well. Our proprietary method for measuring and evaluating sustainability has led to valuable and expanding conversations with management teams. Most managements appreciate us sharing the insights we have gleaned from studying how companies have successfully aligned profits and impact. The result is a valuable two-way dialogue. A deepening of our partnership with the management teams in our investment portfolio naturally leads to a better understanding of their decision-making process. This gives us a deeper appreciation for the risks and opportunities they face. By engaging management teams on sustainability, we signal that we value these efforts for both their long-term value creation potential and positive impact on society.



## Different, But Same

We are investors first and foremost. Our paramount responsibility is to protect and grow the wealth of our clients. Because the stock market is a complex adaptive system, an investment team must evolve in order to understand opportunities and translate them into excess returns. Our Sustainable Research is allowing us to gather data that is more useful than traditional ESG screens. This enables us to capture insights from company management and to observe trends that were previously hidden.

Sustainability initiatives are often criticized outside of investing because the costs and outcomes are unknown. While the impact of sustainability on investing is difficult to measure precisely, we believe the convergence of profits and purpose will lead to improved long-term business performance and investment returns.

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**Sustain** /sə'stān/ to strengthen or support physically or mentally

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# Counterpoint Global

INVESTORS	RESEARCH RESPONSIBILITIES	YEARS OF EXPERIENCE	YEARS WITH FIRM	YEARS WITH TEAM
DENNIS LYNCH	Lead Investor, Head of Counterpoint Global	30	26	26
SAM CHAINANI	Head of Counterpoint Global ~ New York, Technology	28	28	24
JASON YEUNG	Health Care	27	22	20
ARMISTEAD NASH	Business Services, Software	24	22	20
DAVID COHEN	Consumer	36	31	25
ALEX NORTON	Consumer, Industrials, Technology (ex Software)	29	24	24
MANAS GAUTAM	Head of Global Endurance, Generalist	12	9	9
ANNE EDELSTEIN	Co-Head of Vitality, Health Care	13	6	6
JENNY LEEDS	Co-Head of Vitality, Health Care	8	5	5
ABHIK KUMAR	Software, Media	15	5	5
JOSHUA JARRETT	Director of Research, Generalist	19	4	4
RUOBING CHANG	Internet	12	8	4
ALEKS SAMETS	Payments	4	4	4
BETH FIFER	Health Care	12	3	3
MUHAMMADRAZA PANJU	Internet	5	3	3
PETE STOVELL	Generalist	30	3	3
MICHAEL MORITZ	Generalist	6	2	2
GINO GRAZIADIO	Generalist	<1	<1	<1
<b>CONSILIENT RESEARCH</b>				
MICHAEL MAUBOUSSIN	Head of Consilient Research	38	4	4
DAN CALLAHAN	Consilient Research	19	4	4
<b>DISRUPTIVE CHANGE RESEARCH</b>				
STAN DELANEY	Big Ideas, Emerging Themes	23	23	20
SASHA COHEN	Big Ideas, Emerging Themes	7	7	7
JUSTIN AMEZQUITA	Big Ideas, Emerging Themes	4	4	4
<b>SUSTAINABILITY RESEARCH</b>				
THOMAS KAMEI	Head of Sustainability Research, Tailwinds	12	12	12
DERRICK MAYO	Sustainability Research	19	10	3
<b>CLIENT RELATIONSHIP AND BUSINESS MANAGEMENT</b>				
MARK TODTFELD	Chief Operating Officer	29	19	5
KERRY ANN JAMES	Head of Client Relations, Portfolio Specialist	27	7	3
PRAJAKTA NADKARNI	Portfolio Specialist	20	17	13
MICK MORAN	Portfolio Specialist	10	10	2
MCKENZIE BURKHARDT	Portfolio Specialist	21	21	21
XAVIER SALAZAR	Portfolio Analyst	6	6	2
KATHRYNE DOWNS	Portfolio Specialist ~ Global Endurance	12	12	2
EARL PRYCE	Portfolio Administrator	24	24	17
CHAYSE MORGAN	Portfolio Administrator	4	4	4
ERICA CASARENO	Portfolio Administrator	2	2	2
AMBER YANG	Business Management	14	6	3

"Investor" refers to an analyst or portfolio manager of Counterpoint Global.

Team members may change without notice from time to time. Years of Experience listed above refers to Industry Experience.

Years of Experience, Years with Firm and Years with Team are as of June 2024.

## Risk Considerations

There is no assurance that a Portfolio will achieve its investment objective. Portfolios are subject to **market risk**, which is the possibility that the market values of securities owned by the Portfolio will decline and that the value of Portfolio shares may therefore be less than what you paid for them. Market values can change daily due to economic and other events (e.g. natural disasters, health crises, terrorism, conflicts and social unrest) that affect markets, countries, companies or governments. It is difficult to predict the timing, duration, and potential adverse effects (e.g. portfolio liquidity) of events. Accordingly, you can lose money investing in this Portfolio. Please be aware that this Portfolio may be subject to certain additional risks. In general, **equities securities'** values also fluctuate in response to activities specific to a company. Investments in **foreign markets** entail special risks such as currency, political, economic, market and liquidity risks. The risks of investing in **emerging market countries** are greater than risks associated with investments in foreign developed countries. **Privately placed and restricted securities** may be subject to resale restrictions as well as a lack of publicly available information, which will increase their illiquidity and could adversely affect the ability to value and sell them (liquidity risk). **Derivative instruments** may disproportionately increase losses and have a significant impact on performance. They also may be subject to counterparty, liquidity, valuation, correlation and market risks. **Illiquid securities** may be more difficult to sell and value than public traded securities (liquidity risk). **ESG Strategies** that incorporate impact investing and/or Environmental, Social and Governance (ESG) factors could result in relative investment performance deviating from other strategies or broad market benchmarks, depending on whether such sectors or investments are in or out of favor in the market. As a result, there is no assurance ESG strategies could result in more favorable investment performance. **Active Management Risk.** In pursuing the Portfolio's investment objective, the Adviser has considerable leeway in deciding which investments to buy, hold or sell on a day-to-day basis, and which trading strategies to use. The success or failure of such decisions will affect performance. To the extent the Portfolio invests a substantial portion of its assets in the information technology sector, the Portfolio may be particularly impacted by events that adversely affect the sector, such as rapid changes in technology product cycles, product obsolescence, government regulation, and competition, and may fluctuate more than that of a portfolio that does not invest significantly in companies in the technology sector.

### DEFINITIONS

**"ESG" investment:** Environmental Social and Governance based investment is an investment approach which takes explicit account of the environmental, social and corporate governance aspects of all proposed investments.

### IMPORTANT INFORMATION

There is no guarantee that any investment strategy will work under all market conditions, and each investor should evaluate their ability to invest for the long-term, especially during periods of downturn in the market.

**A separately managed account may not be appropriate for all investors. Separate accounts managed according to the Strategy include a number of securities and will not necessarily track the performance of any index. Please consider the investment objectives, risks and fees of the Strategy carefully before investing. A minimum asset level is required.**

**For important information about the investment managers, please refer to Form ADV Part 2.**

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