



Happy Workers = Alpha

-Bank of America Quantitative Analysis Team

Chart 2: Overall Rating Long Short performance outperforms with sector neutral results

Cumulative relative performance (indexed to 100) when going long high rated quintile stocks while shorting the low rated quintile stocks, Jan 2013 - Dec 2018, quarterly rebalancing.



Chart 3: CEO Review Long Short performance outperforms with sector neutral results

Cumulative relative performance (indexed to 100) when going long high rated quintile g stocks while shorting the low rated quintile stocks, Jan 2013 - Dec 2018, quarterly rebalancing.



Source: Bank of America Quantitative Research

Purpose and Performance

As socially responsible investing, or ESG (Environment, Social, and Corporate Governance) continues to gain acceptance, the search for fully defining the approach and any source of outperformance continues. While investors would like to make their investments meaningful, ESG investing as currently defined only produces comparable results to other forms of investing. What has been interesting is how ESG as currently defined has embraced our investment process as noted in Morningstar's four and five globe ratings for several of our funds. Now, this month, we find that another research tool we have employed over the years has been identified by Bank of America's quantitative group as not only producing outperformance but also fits into their evolving ESG framework. But, let's provide some context.

A Holistic Approach

Virtually every manager has an investment process page in their institutional marketing materials that explains the steps they take to select investments that can make it into a portfolio. Our graphic describes our "due diligence" process that we state is holistic, utilizing written, oral, and visual data to analyze the four investment pillars of a business. But, what do we mean by a holistic process and can we provide an example?

By holistic, we mean we are scrutinizing a potential investment through as many lenses and perspectives as possible to assess its potential to generate outperformance for clients. One lens that we have employed for years has been Glassdoor, the largest global website for employee reviews and ratings intended to provide insights into a firm's culture and work environment. Common sense would suggest that anonymous feedback would provide a "glassdoor" to look into a company's operations and that happier employees who are aligned with the vision of the Chief Executive Officer should perform at a higher level than firms with poor reviews. While not officially incorporated into ESG investing, it is now being recognized as a potential tool in this area.

Finding Signals in the Noise

This month, Bank of America's quantitative equity group conducted its first study of Glassdoor reviews and unlike many ESG rankings, Glassdoor rankings actually appear to help generate outperformance. In the graphic above, the chart on the left shows the difference in performance between the top 20% of highest ranked public companies based on overall and CEO score versus the bottom 20% with the chart on the right the same process but limited to the ranking for the CEO.

The results of the stock baskets start in December 2012.



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"Best Big Company To Work At"



Former Employee - Senior Account Manager in Seattle, WA

■ Recommends

■ Positive Outlook

■ Approves of CEO

I worked at Google full-time (More than 5 years)

Pros

Excellent culture. Leadership that makes the right decisions for our users. It's all about the user experience and we see that transparently throughout the company. Managers are committed to the career development of their team.

Cons

Big company so can be difficult to feel like you're having a big impact on such a big company!

Source: Glassdoor

Because Glassdoor is relatively new, the timeframe is short, but we find Bank of America's work illuminating and supportive of our use of this tool when assessing new stock purchase ideas.

Google is a stock that we have owned for years in several of our strategies and it has won Glassdoor awards for Best Places to Work for 10 years straight. An example of a Google Glassdoor review is shown above and perhaps it is one reason the performance of Google has been part of the vaunted FANG performance over that time.

Do employers encourage employees to write positive reviews? Yes, they do. But that dynamic places a greater emphasis on actively scrubbing reviews to put together a holistic assessment of the firm. Just as current employees may be optimistic, former employee reviews are typically more jaded. In an era where machine

learning is trying to automate the digestion of these reviews, automation of the process remains a challenge according to Bank of America.

Whether it is speaking with company management as we did this afternoon, scrutinizing the financing of a recent debt offering by a portfolio holding this morning, or assessing a company's Glassdoor reviews, a holistic approach is employed to find the elements of an "ideal" business suitable for investment for our clients.

As always thank you for your interest and trust managing your investments.

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