Q1 2019

Client Focus

CLIENT PROFILE

StormTrap finds concrete solutions for managing stormwater

EQUITY RESEARCH

Finding sustainability in every corner of the economy

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Sustainability: A Climate of Opportunity

Companies worldwide are seeing sustainability as a corporate strategy for long-term growth

William Blair

Markets Bounce Back on Cautious Optimism

Financial markets staged a healthy recovery during the first quarter after the nervous selling and profit-taking seen late last year. Early on, both stocks and bonds drew strength from the Federal Reserve signaling it would take a softer approach to raising rates.

Another positive was the Trump administration tempering its stand on China in the world's top trade conflict. U.S. tariffs were scheduled to increase on March 1, which would have added to American producer and consumer costs. But a suspension by President Trump just days before they ratcheted higher added to the cautious optimism.

Corporate earnings so far this year have shown signs of weakness on trade worries. But job growth in the United States roared ahead in January, shrugging off a month-long partial government shutdown to keep unemployment near a 50-year low. Wage inflation pressures are rising.

Longer term, most economists continue to point to economic growth as the key data to watch for the coming year. The government on February 28 said GDP grew 2.6% in the fourth quarter 2018. U.S. growth in 2019 is expected to come in steady to about 2.5% for the full year after softening in the first half. But a slowdown in growth in China and the EU, and the potential turmoil from a rocky Brexit add caution.

So it's no surprise investors will remain focused on growth. Increasingly companies are embracing sustainable business practices that are better for the environment and society to improve performance. But in a broader sense, the concept of sustainability has taken root across corporate sectors in adopting a host of initiatives to be better global citizens.

That guiding imperative for executives is showcased in this issue of *Client Focus*. It will remain a theme for us through 2019 as we look at how it is transforming business.

William Blair has long supported the concept of sustainability. The firm in 2011 was an early signatory of the United Nations-supported Principles for Responsible Investment. We continue to find ways to incorporate sustainability in our assessment of investment opportunities and risks.

Stephanie Braming, head of Investment Management, was a panelist at *The Economist's* Impact for Investing conference in February and discussed how a company's culture is key to creating sustainable value. We have also named IM's Blake Pontius, who you will hear from in our lead article, director of sustainable investing—underscoring our commitment to integrating sustainability into the investment processes.

William Blair's culture is rooted in the values of integrity, entrepreneurship, and inclusion—principles that provide guidance for our clients, colleagues, and communities. We look forward to continuing to work with you in providing value and helping you to stay focused on your long-term goals.

Sincerely,

John Ettelson
President and CEO

Companies Respond to Customers and Investors as ESG Puts Down Roots on Wall Street

Companies across dozens of industries worldwide in 2019 are increasingly seeing sustainability in a new light: as a corporate strategy for long-term returns but also as a critical valuation of their company by their customers, investors, and employees.

Why? Sustainability is having a real impact on their operations, from sales growth and profits to hiring new talent and attracting capital.

"It's on everybody's radar," says Blake Pontius, who leads William Blair's Investment Management sustainable investing initiatives and analysis of environmental, social and corporate governance (ESG) factors. "Corporate sustainability initiatives are evolving beyond risk mitigation to identifying growth opportunities through product and service innovation."

Investors are paying attention.

Global Sustainable Investment Alliance data shows that $22.9 trillion of assets were professionally managed under ESG investment strategies in 2016, up from $13.3 trillion in 2012.

Consumers and employees are also paying attention. A Nielsen Global Corporate Sustainability Survey of 30,000 consumers around the world in 2015 reported that 66% were willing to pay more for sustainable brands, up from 55% in 2014. Of millennials surveyed, 73% said they were willing to pay more, up from 50% in 2014.

Companies embrace sustainability

Thousands of consumer products are now being produced with sustainability in mind. Sportswear giant Adidas sold 1 million pairs of sneakers made from harvested ocean plastic for $200 a pair the first year they were available. Danish bioscience company Chr. Hansen is developing a probiotic for yogurt to increase shelf life by a week, aiming to cut food waste by 30% and targeting 25% sales growth for its "bioprotection" unit by 2025.*

Corporate giants are also changing their infrastructure. Apple now powers 100% of its facilities across 43 countries with renewable electricity. It pledges to help its manufacturing partners install more than 4 gigawatts of new clean energy by 2020. Walmart doubled the efficiency of its transport fleet by investing in electric vehicles and optimizing rail use.*

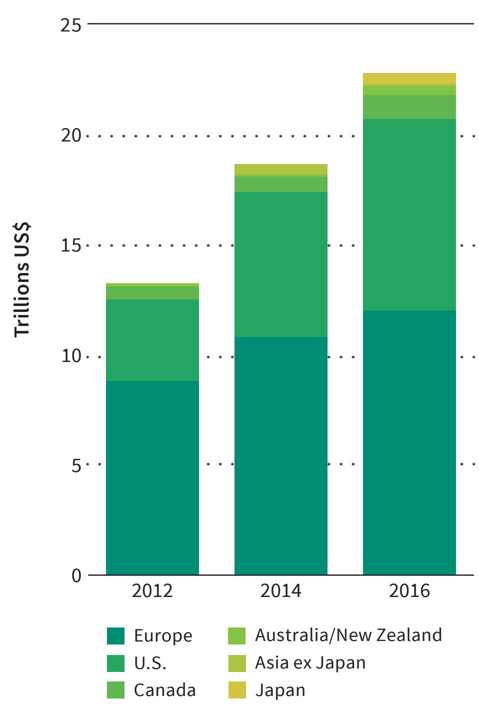
"As global environmental and social threats increase, integrating sustainability into core business strategies—and capturing its competitive advantages—becomes ever more critical," according to Turning Point, a review of more than 600 corporations working to meet ESG goals from Ceres, a Boston-based nonprofit. "More companies now understand the business imperative of addressing sustainability risks."

"Customers and employees tend to be more focused on reputation and wanting to philosophically support where they work and who they are buying from with greater and greater understanding of everything that is at stake from unchecked climate change," says Sue Reid, who leads Ceres' climate and energy team.

A broader mandate taking hold?

The United Nations-backed Principles for Responsible Investment (PRI) underscore an ESG view of corporate behavior. Climate change, water, fracking and methane emissions are key PRI

Surge in Sustainable Investing



Source: Global Sustainable Investment Alliance environmental "E" issues. But social "S" yardsticks include each company's actions on human rights, labor rights, and employee relations. And the PRI's governance "G" yardsticks include scrutiny of executive pay, board diversity, tax avoidance, corruption and cyber security.

"It's on everybody's radar."

Pontius says institutional investors are now asking: What are your ESG credentials? Are you a signatory to the United Nation's PRI? How do you, say, analyze the risks of climate change when you're investing in insurance companies or product safety for pharmaceutical companies?

"There's a reason why they're asking," he says. "Our institutional investors include pension funds, healthcare organizations, endowments and foundations—all of whom have a long-term focus and see sustainable business practices as strategic to long-term company performance."

A wider lens to examine risk

Losses for world insurers due to climate-related disasters like hurricanes, tornadoes and floods have been rising steadily in the last two decades. But investors are now assessing corporations as a whole through the same lens, rating "transition risk"—meaning future changes in government policies, technology, and international laws seen likely to affect a company's bottom line.

"It's the risk of getting behind," explains Reid. "We saw what happened to the coal sector. They were not listening to the signals." Reid notes that ratings agencies like Moody's are increasingly incorporating "downstream" legal risks for companies seen as directly linked to climate change.

Filing for bankruptcy protection in January, California's largest power company PG&E said it faced tens of billions of dollars in potential liability due to the state's wildfires over the past two years, with "the significant increase in wildfire risk resulting from climate change, including the likelihood that future wildfires would result in additional claims."

ESG performance benchmarks in spotlight

So Wall Street is beginning to pay attention to sustainability in a big way.

MSCI, Bloomberg and others now offer ESG indices and data to help investors benchmark ESG performance. Morningstar issues ESG ratings for

Keeping a Careful Watch on Economic Growth

Stocks turned around in the first quarter spurred by the Federal Reserve's backing away from its tightening monetary policy. But how long will the optimism last?

Olga Bitel, who leads William Blair Investment Management's macroeconomic research, says she'll be watching economic growth over the coming months.

"Rather than trying to make sense of Fed communications as an isolated event or predict its next move, the most important thing to watch is growth," Bitel says. For 2019, U.S. GDP growth is already projected at 2% to 2.5%, weaker than last year's 3%, she says.

"Growth in the United States has slowed since last half 2018 and we expect Q1 or Q2 to be the bottom of that deceleration—stabilizing or even rebounding modestly in the second half of 2019."

Bitel says both the market and the Fed will be closely watching purchasing managers' indexes released at the first of each month to gauge the manufacturing and services sectors. So far, readings are well above 50, consistent with growth.

Global growth is expected to follow a similar trend, slowing early in the year followed by stabilization.

The United States, China, and Europe—the world's largest economic engines with the United States at 19% of global GDP, China also at 19% and Europe at 15%—will remain in the spotlight for global growth markets.

European trends are seen weaker than those of either the United States or China, Bitel says, with the German economy slowing and Britain struggling with the tangle of Brexit.

As the U.K. exit looms, Bitel says the outcome is anyone's guess: No Brexit, postponement of Brexit, the softest possible Brexit, another referendum or a combination of these.

The Chinese economy is also showing signs of weakness as manufacturing and exports have contracted in recent months. But Bitel says the government will provide fiscal support especially through tax measures to stabilize the economy.

"And of course if and when we get a China trade deal that will help sentiment as well," she added.

mutual funds. Stock exchanges are working to enhance ESG reporting. A new array of "green bonds" have entered the fixed-income market.

William Blair analysts regularly meet with companies for their own assessment of ESG factors alongside traditional financial analysis as they assess long-term sustainability. The firm's proprietary online research platform, known as Summit, stores and organizes ESG data that helps analysts in evaluating companies.

"It is essentially an expanded lens for identifying risks and opportunities," Pontius says. "We think it's key to systematically embed ESG analysis in our company research to provide a more holistic assessment. The link between ESG and financial performance is likely to strengthen from here."

*Adidas news, 1/21/19; Ceres *Turning Point*, 2018; Chr. Hansen reports.

Just Released: *Our Journey to a Sustainable Future*

William Blair has just released *Our Journey to a Sustainable Future*, a guide to how the firm is expanding its footprint in the sustainable and impact investing sector.

The guide features interviews with William Blair's thought leaders on how the firm is integrating sustainable and impact investing principles across all of its business units. You can download a copy of *Our Journey to a Sustainable Future* at williamblair.com/SustainableFuture.

EQUITY RESEARCH

Finding Sustainability in Every Corner of the Economy

A rising tide of consumers from millennials to baby boomers are now embracing the idea of sustainability buying brands and products that are better for the environment and society.

And companies are responding by appointing chief sustainability officers and adopting a host of initiatives to be better global citizens—sourcing ingredients locally, using less fossil fuel, limiting their landfill, using and producing recyclable products, among a growing host of initiatives.

"They are doing it because it's the right thing to do but it's also good for business," says William Blair analyst Jon Andersen. "Consumers care and want to be proud of the companies they buy from."

Freshpet, Aptar embrace sustainability
To illustrate the breadth and depth of the trend, Andersen cites two very different companies: Freshpet, a pet food manufacturer, and Aptar, which makes plastic caps and pumps for bottles and tubes.

New Jersey-based Freshpet, a newcomer to the giant pet food industry, embraced the idea of social responsibility from the start. The company sources 70% of its ingredients within a 200-mile radius of its production facility. Freshpet Kitchens are landfill free and wind powered to cut fossil fuel use.

"Not only do we have this mission and this focus on bringing fresh food to the pet food category, but we want to do it in a way that was good for pets, people, and the planet," Freshpet co-founder Scott Morris said during the company's investor day last year.

Aptar, named to *Barron's* 2019 Top 100 Most Sustainable U.S. Companies list, formed a task force a few years ago with a clear mission: replace its use of fossil-based resins to make plastic caps.

Earlier this year Aptar signed on to a global commitment from the Ellen MacArthur Foundation to end plastic waste and became a member of the World Business Council for Sustainable Development (WBCSD). Both initiatives aim to find ways to re-circulate used plastic to keep it in the economy and out of landfills and oceans.

Aptar CEO Stephan Tanda said: "We are particularly interested in WBCSD's innovative work in relation to the circular economy, including the Global Plastics Alliance."

To receive William Blair research reports, contact your advisor. Visit **williamblair.com/ResearchCoverage** *for disclosure information.*

StormTrap Finding Concrete Solutions for Managing Stormwater

Climate change and a warming world are leading to greater amounts of moisture in the atmosphere, giving rise to more volatile weather events. These include larger and more intense hurricanes and other storms that have battered cities, towns and rural areas with flooding that can swamp stormwater systems.

"More frequent and intense downpours, projected for all regions of the country, can overwhelm the design capacity of municipal stormwater management systems," the Environmental Protection Agency says. "Overwhelmed stormwater management systems can lead to backups that cause localized flooding or lead to greater runoff of contaminants such as trash, nutrients, sediment or bacteria into local waterways."

Founded in 2002

Enter StormTrap, an American company that is growing fast from demand for its "concrete" solutions to fix the problem. Founded in 2002, StormTrap designs a variety of underground storage units made of durable, precast concrete that capture the torrents of runoff from rainfall and snow melt in towns and cities. StormTrap has installed thousands of systems as municipalities, businesses, and suburban developers seek to manage flooding and erosion caused by stormwater.

In December, StormTrap partnered with private equity firm Warren Equity Partners to work together to grow the business. William Blair was the exclusive financial advisor to StormTrap.

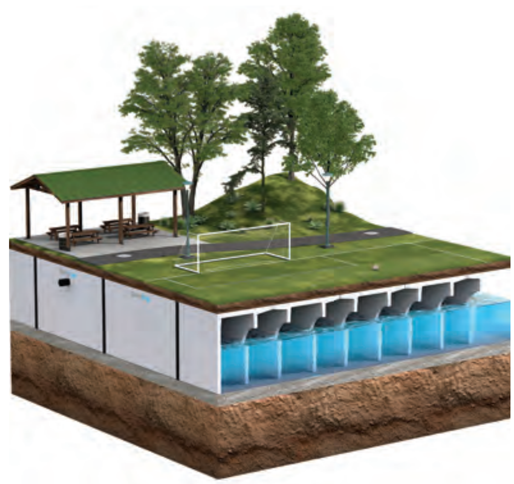
"Many municipalities now realize they don't have the infrastructure to manage their stormwater properly," says Bob McCormack, president and CEO of StormTrap.

One way landowners can manage stormwater is in above-ground retention ponds. But many times that requires them to buy more land—a limited option as communities expand.

"You can accomplish the same thing on a smaller footprint by putting a stormwater management solution under a parking lot or under green space," says McCormack. "So you're able to reclaim some of that land from a sustainability point and you can operate on a smaller footprint."

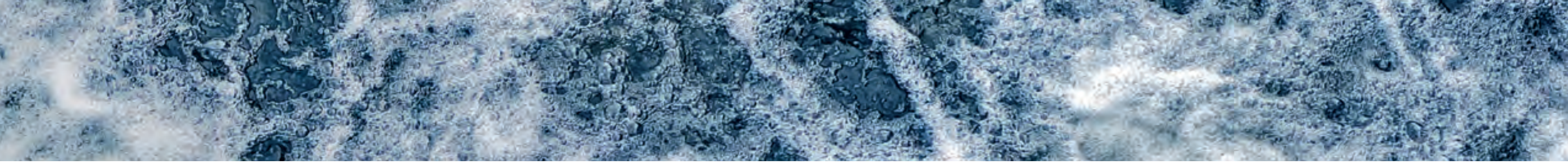
Take city parks as an example. "What we're seeing in the public sector is that municipalities will take an established park and are retrofitting it with a StormTrap system underneath the park," McCormack says.

StormTrap's modular units fit together like puzzle pieces to create an underground tank to trap water.



SingleTrap
Incorporates rainwater harvesting and treatment options

DoubleTrap
Minimizes a project's footprint by going deeper versus wider



That solution is becoming particularly popular in California, for example, as municipalities redesign or create new parks with large StormTrap vaults underneath to manage rainfall. Moreover, StormTrap has engineered its solutions to also allow towns to store, clean, and reuse the water within their municipality, McCormack says.

In California, which is seeing both drought and storm cycles, that makes StormTrap even more attractive to municipal planners.

Flooding feeds innovation

StormTrap was the brainchild of Utility Concrete Products of Morris, Illinois, which had decades of experience in the precast concrete business.

In the late 1990s, the fast-growing Chicago suburban town of Plainfield began seeing problems with stormwater runoff and flooding as more streets, buildings and parking lots replaced green spaces. The EPA had also just released new regulations requiring local municipalities and industries to better manage stormwater and reduce pollutants in runoff.

"A local funeral home was looking to expand its operation but was unable to accommodate both the additional parking that it desired as well as the new stormwater requirements," said Jamie Hawken, a member of the founding family of Utility Concrete and StormTrap.

The civil engineer working on the expansion reached out to Utility Concrete asking for ideas to help. Their solution was the initial prototype of StormTrap: a precast concrete tank buried under the funeral home's parking lot to trap the stormwater then release it slowly into the municipal system.

The design was patented in 2002 and has been re-engineered over the years to increase efficiency and applications.

Today, one of StormTrap's main product lines consists of precast modular units, ranging in size from 2 feet to 15 feet high. They fit together like pieces of a puzzle—imagine concrete LEGOs—to custom fit each job on-site and create an underground tank that traps water.

The units have also been specially re-designed for use in California and other areas of the world prone to seismic activity.

Growth industry

Given the growing incidence of powerful storms, McCormack sees bright prospects for StormTrap's solutions domestically and overseas. The company already has licenses in Canada, Australia, and Malaysia and sees more projects likely in Asia.

"Certainly the China market is of key interest to us because of the sponge city initiatives," McCormack says, citing China's multi-billion-dollar green stormwater infrastructure plan.

China in 2015 announced plans to construct flood-ready "sponge cities," that can divert and soak up flood water. Initially, 16 cities were going to participate but the number has grown to 30. The country's central planners also want at least 70% of their rainwater to be re-used by 2020.

"StormTrap is well-positioned to continue to serve the growing demand for stormwater management systems, and we are excited to help the company expand their geographic footprint and product offering," says Warren Equity partner Scott Bruckmann.

> "Many municipalities now realize they don't have the infrastructure to manage their stormwater properly."
>
> —**Bob McCormack,** CEO of StormTrap

Opportunity Zones

New tax breaks target investing in struggling communities

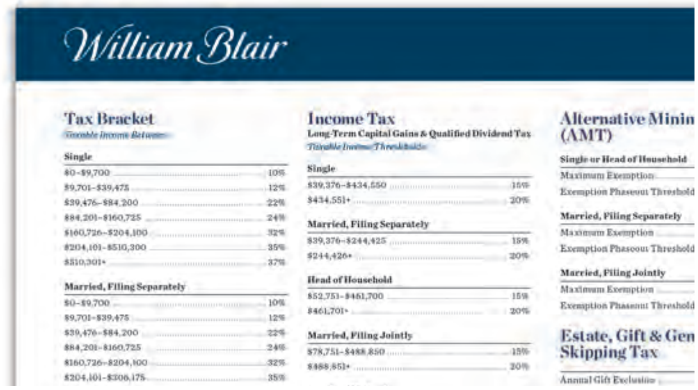
A brand new program established under the sweeping 2017 federal tax law is drawing the attention of investors as well as city and state officials across the country. The initiative creates *opportunity zones* and offers significant tax breaks to individuals and companies who invest in these selected urban and rural areas that meet income or poverty thresholds.

A key attraction: Investing in these new zones allows investors to defer and reduce capital gains from other investments. The program also offers the potential for a full tax break on subsequent investment gains.

The law recognizes that transformative steps are needed to revitalize rural communities and some urban pockets that have not seen as much recovery from the financial crisis as many big metropolitan areas.

William Blair is planning to offer qualified clients the option to invest in opportunity zone funds in 2019. Details are available at williamblair.com/opportunity-zones. For more information, contact your William Blair representative.

2019 Tax Reference Guide Now Available



William Blair

Tax Bracket

Single	
$0–$9,700	10%
$9,701–$39,475	12%
$39,476–$84,200	22%
$84,201–$160,725	24%
$160,726–$204,100	32%
$204,101–$510,300	35%
$510,301+	37%

Married, Filing Separately	
$0–$9,700	10%
$9,701–$39,475	12%
$39,476–$84,200	22%
$84,201–$160,725	24%
$160,726–$204,100	32%
$204,101–$306,175	35%

Income Tax

Long-Term Capital Gains & Qualified Dividend Tax

Single	
$39,376–$434,550	15%
$434,551+	20%

Married, Filing Separately	
$39,376–$244,425	15%
$244,426+	20%

Head of Household	
$52,751–$461,700	15%
$461,701+	20%

Married, Filing Jointly	
$78,751–$488,850	15%
$488,851+	20%

Alternative Minin (AMT)

Single or Head of Household

Maximum Exemption

Exemption Phaseout Threshold

Married, Filing Separately

Maximum Exemption

Exemption Phaseout Threshold

Married, Filing Jointly

Maximum Exemption

Exemption Phaseout Threshold

Estate, Gift & Gen Skipping Tax

Annual Gift Exclusion

William Blair's new tax reference guide for income earned in 2019 and tax returns filed in early 2020 is now available at williamblair.com/TaxGuide.

The guide provides the latest information on tax rate schedules, exemptions, capital gains, and contribution limits on savings plans based on the Tax Cut and Jobs Act (TCJA) of 2017.

TCJA produced the most sweeping changes to the nation's tax system in decades, affecting each person, family, business, and estate differently.

Contact your William Blair representative to discuss any adjustments you might need to make regarding tax efficiency, retirement planning, philanthropic strategies, and business and estate planning.

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