

## ESG Investment Philosophy

At William Blair\*, environmental, social, and corporate governance (ESG) factors are among many considerations that inform our investment decisions—inextricably linked with our fundamental assessment of the quality of corporate management and sustainable value creation potential.

\*“William Blair” refers to William Blair Investment Management, LLC.



## Investment Philosophy

William Blair has long believed in the importance of integrating key environmental, social, and governance (ESG) considerations into our investment process. We have found that integrating targeted ESG factors alongside traditional financial metrics in our fundamental research helps us make a more holistic assessment of corporate risk and opportunities, and is commensurate with the pursuit of superior risk-adjusted returns on behalf of our clients and their beneficiaries. In 2011, William Blair signed the United Nations-supported Principles for Responsible Investment (PRI) given the natural alignment of those principles with our quality-focused approach to investing.

## Fundamental Analysis Focus

While ESG ratings are helpful inputs in our process, investment decisions are made through a holistic assessment of each company's growth opportunities and risks (including ESG considerations) based on our team's collective insights. Given the broad range of companies in William Blair's investment universe and the current state of sustainability ratings and corporate disclosures—which skew toward mid- and large-cap developed markets—we believe that proprietary, fundamental research is a crucial element of our decision-making process and ongoing integration effort. Our industry materiality framework, which informs our initial recommendations and ongoing due diligence, is summarized on the following pages.

## ESG Integration

**For all of William Blair's fundamental equity and fixed-income strategies, ESG factors are inextricably linked with our fundamental assessment of company management and the sustainability of competitive strengths.**

Our research analysts provide a qualitative summary of what they view as each company's relevant ESG-related risk exposures and opportunities. These issues are documented within our company recommendation reports and discussed by the analysts and portfolio managers during our regular team meetings.

ESG insights are primarily informed by proprietary research, including company meetings and data aggregation from multiple internal and external resources. Our assessment of potential ESG risks and opportunities for different industries and companies is supported by a proprietary materiality framework that was developed internally by the investment teams, with input from the International Financial Reporting Standards (IFRS) Sustainability Alliance and sustainable investment research providers.

In addition to our proprietary ESG research, third-party ESG company ratings are systematically incorporated into our research reports to provide additional context. These ratings are discussed as part of the original buy recommendation, depending on data availability and our assessment of materiality with respect to the investment thesis. William Blair currently utilizes ESG ratings from MSCI ESG Research and routinely monitors the research vendor landscape for additional ESG research inputs. We also continually seek expanded universe coverage and data quality improvement from our existing research providers.

From a governance perspective, our key focus is on board composition, minority shareholder treatment, management incentives, and corporate culture. Environmental areas of focus include climate change, natural resources stewardship, and pollution and waste management. Social considerations include human capital management, customer well-being, supply chain management, and community relations. The materiality of these issues varies by country, industry, and company.

# William Blair ESG Materiality Framework



## *Environmental Categories*

**Climate Change:** carbon/greenhouse gas emissions; exposure to potential climate regulation (such as stranded assets); exposure to physical climate changes (such as weather and natural disasters); exposure to market opportunities, innovation, or subsidies in renewable energy

**Natural Resources Stewardship:** responsible depletion of natural resources, including water, commodities, and land; impact on biodiversity; exposure to market opportunities; innovation or government subsidies in the areas of energy efficiency, sustainable water, and green building

**Pollution and Waste:** toxic emissions and waste; packaging; electronic waste; exposure to market opportunities, innovation, or government subsidies in pollution and waste-prevention and control

## *Social Categories*

**Human Capital:** employee recruitment, development, and retention (such as pay, benefits, diversity and inclusion); workplace health and safety; exposure to operational risks from labor unrest

**Customer Well-Being:** product quality and safety; responsible marketing; data privacy and security; exposure to market opportunities/reputation benefits through access to finance, health care, nutrition, or communications

**Supply Chain Management:** managing opportunities and risks beyond direct operations

**Community Relations:** consideration of other stakeholders; community engagement and development

## *Governance Categories*

**Corporate Governance:** board experience and structure (such as independence, entrenchment, and diversity); ownership and control (minority shareholder rights); executive compensation

**Corporate Culture:** the extent to which corporate values influence value creation; management track record; compliance with the spirit of laws and regulations; bribery and corruption risk exposure

## Systematic Integration in William Blair's Online Research Platform (Summit)

The systematic integration of ESG research in our investment process is also reflected in Summit, William Blair's proprietary online research and communication platform.

The company home page in Summit includes an ESG overview section alongside our qualitative investment commentary and pertinent security/company financial data. This ESG overview section integrates data feeds from MSCI ESG Research, which complement our analysts' ESG insights.

Summit enables analysts to seamlessly access ESG-focused resources for industries and companies by clicking on embedded hyperlinks to the William Blair Materiality Framework and additional third-party ESG research. Summit also facilitates timely and efficient communication of ESG-focused company meetings and events across investment teams. Analysts can quickly reference industry-relevant ESG topics and example questions for management as they prepare for company meetings and add notes to Summit.

## Ownership Practices

ESG integration at William Blair also encompasses responsible ownership practices, and we take seriously our responsibility to monitor the effectiveness of company management and exert influence on governance practices through the exercise of proxy voting rights.

Our commitment to responsible ownership is demonstrated by our support of global corporate governance initiatives including the Japan Stewardship Code and the Korea Stewardship Code. As a member of the Investor Stewardship Group, William Blair also endorses the Framework for U.S. Stewardship and Governance.

Although William Blair is not an activist investor, corporate governance and the treatment of minority investors are of significant importance to us. Our investment process takes into consideration issues that may affect shareholders prior to our investing in a particular company. If we are not satisfied that the entity has placed shareholder interests foremost in its thinking regarding its capital allocation and business practice decisions, then we will not invest.

As environmental and social issues are becoming more prominent areas of focus for our clients and shareholders more broadly, we believe it is important to periodically review our proxy voting policy to ensure that it remains well aligned with our clients' objectives, along with our assessment of corporate risk and opportunities.

In October 2018, William Blair adopted proxy voting guidelines that are focused on financial returns and consistent with the objectives of sustainability-minded investors. Sustainability-minded investors are concerned with economic returns and also with ESG principles that could materially affect future financial outcomes.

## Proxy Voting

### *Proxy Voting Overview*

As a registered investment adviser, William Blair has a fiduciary duty to act solely in the best interests of its clients without regard to the interests of William Blair. William Blair recognizes that this duty requires it to vote client securities' proxies in a timely manner and make voting decisions that are in the best interests of its clients. William Blair's proxy voting policies assist the firm in considering factors that could affect the value of a security subject to a proxy vote so that the firm votes proxies in the manner that it believes will be consistent with efforts to maximize shareholder value. Moreover, in furtherance of William Blair's goal to vote proxies in the best interest of clients, the procedures are designed to identify and address material conflicts that may arise between William Blair's interests and those of its clients before voting proxies on behalf of such clients.

### *Proxy Voting—General Policy*

William Blair shall vote the proxies of its clients solely in the interest of their participants and beneficiaries and for the exclusive purpose of providing benefits to them. William Blair shall act with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims. William Blair is not responsible for voting proxies it does not receive. However, William Blair will make reasonable efforts to obtain missing proxies. For clients participating in a securities lending program via their custodian, William Blair will not be eligible to vote proxies for the portion of shares on loan.

William Blair has adopted the voting guidelines of an independent proxy administrator. All proxies are reviewed by the proxy administrator, subject to the requirement that all votes shall be cast solely in the best interest of the clients in their capacity as shareholders of a company. The proxy administrator votes the proxies according to the voting guidelines, which are designed to address matters typically arising in proxy votes. In instances where William Blair has implemented a client provided proxy voting policy, William Blair will vote in accordance with the client's policy at all times even if the client's policy is inconsistent with William Blair's vote. In the case when nominee voting is not allowed, it may be impractical for William Blair to participate in those particular votes.

William Blair does not intend the voting guidelines to be exhaustive; hundreds of issues appear on proxy ballots and it is neither practical nor productive to fashion a guideline for each. Rather, the voting guidelines are intended to cover

the most significant and frequent proxy issues that arise. For issues not covered or to be voted on a case-by-case basis by the voting guidelines, the proxy administrator will consult the proxy policy committee. The proxy policy committee will review the issues and will vote each proxy based on information from the company, our internal analysts, and third-party research sources, in the best interests of the clients in their capacity as shareholders of a company. The proxy policy committee consists of certain representatives from the investment management department, including management, portfolio managers, analysts, and operations personnel, as well as a representative from the compliance department. The proxy policy committee reviews the proxy voting policy and procedures annually and shall revise its guidelines as events warrant.

### *Proxy Recordkeeping and Disclosure*

Pursuant to this policy, William Blair will retain: 1) the proxy voting policy statement and procedures; 2) all proxy statements received regarding client securities; 3) records of all votes cast on behalf of clients; 4) records of client requests for proxy voting information; and 5) any documents prepared by William Blair that are material to making a decision how to vote, or that memorialize the basis for the decision.

Upon a client's request to the proxy administrator, William Blair will make available to its clients a report on proxy votes cast on their behalf. These proxy-voting reports will demonstrate William Blair's compliance with its responsibilities and will facilitate clients' monitoring of how their securities were voted.

The proxy voting policy statement and procedures will be provided with each advisory contract and will also be described and provided with the Form ADV, Part 2A.

[Clients invested in the William Blair mutual funds can access the policy and voting activity on the William Blair Funds website, which allows users to search activity by fund, company, or company shareholder meeting dates. Pursuant to U.S. regulatory requirements, fund voting activity is also filed with the Securities and Exchange Commission \(SEC\) via the Form N-PX, which is publicly available on the SEC's EDGAR database.](#)

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