Big Asset Managers, Bad Climate News, And Biden Agenda Maintain ESG Momentum

First Quarter 2021

Wall Street Sides With ESG

Last year, asset flows into U.S. sustainable funds reached a record $51.1 billion, up from $21.4 billion in 2019 and nearly 10 times higher than in 2018. Clearly, environmental, social, and governance (ESG) investing—not long ago seen as a fringe approach—has not only gone mainstream but has kept momentum in its meteoric growth.

In part, that growth has relied on the world's biggest asset managers continuing to validate ESG considerations—and climate risk in particular—as fundamental to the investment process. BlackRock, a financial behemoth with $8.7 trillion of assets under management (AUM), continues to acknowledge the threats of long-term, globally linked trends like the physical effects of climate change. In his most recent annual letter to CEOs, BlackRock CEO Larry Fink reinforced the firm's commitment to net zero emissions by 2050 and again highlighted climate risks.

This past year, devastating wildfires, hurricanes, and the failure of the Texas power grid dramatically exemplified what issues investors may increasingly face going forward. Meanwhile, investors who manage these risks of climate transition, Fink explained, position themselves to capture "a historic investment opportunity." In the letter, Fink detailed the firm's steps to incorporate ESG and climate change considerations into all aspects of the investment process to achieve better risk-adjusted returns.

Given the firm's size and influence, we expect other investment firms to continue to follow BlackRock's blueprint when it comes to ESG investing.

When The Grid Goes Down

In February 2021, freezing temperatures led to widespread failure of the Texas power grid. At the height of the crisis, about 4.5 million Texans were without power, and several deaths were blamed on the adverse weather. Some of those historically opposed to the shift toward renewable energy blamed green energy for the devastation, as photos of frozen wind turbines circulated on the internet.

In reality, the Texas grid remains 65% dependent on natural gas and coal, with a smaller (20% to 22%) share connected to wind energy, according to the Energy Information Administration. The grid crashed in part because of a lack of winterization among electricity generators and natural gas producers. Ironically, detractors of renewable energy may have purposefully overlooked the most fundamental point: The extreme weather that caused the damage is the direct result of climate change.

While unfortunate, the events in Texas served as a clear example of how our changing climate will continue to impact lives, businesses, and the overall economy—at an increasingly greater scale. From an investment perspective, that's why Seeds focuses not only on how companies lessen their environmental footprints but how they protect themselves to now ever-present climate risks. Companies with significant physical infrastructure exposures, for example, will likely require proactive efforts to adapt business models to reduce risks. Meanwhile, companies focused on renewable energy, energy efficiency, green infrastructure, and rapid decarbonization may represent stronger long-term investment opportunities relative to peers.

Biden Pushes For Offshore Wind Expansion

Among President Biden's expansive agenda toward renewable energy, the administration announced plans to increase offshore wind generation off the east coast. The new plan calls for the installation of 30 gigawatts (GW) of offshore wind power by 2030, enough capacity to serve 10 million homes. The administration plans to help speed the deployment process by accelerating permitting and providing federal loan guarantees for wind projects.

In addition to driving a green energy transition, the plan could create more than 70,000 direct and indirect jobs. Key states targeting growth of offshore wind include Connecticut, Maryland, Massachusetts, New Jersey, New York, Rhode Island, and Virginia. So far, these states have commitments to install 30 GW of offshore wind by 2035, though only about 11 GW has been awarded to date. Vineyard Wind, with 800 MW capacity, is likely to be the first utility-scale wind farm by 2023.

The growth of the U.S. offshore wind industry could serve as a positive for Seeds portfolio companies, including Orsted (DNNGY) and Vestas Wind (VWSYF).

Former BlackRock Employee Calls ESG "Greenwashing"

In an opinion piece recently posted to USA Today, former Blackrock Sustainable Investing CIO Tariq Fancy argued ESG investment offerings are no more than a marketing ploy aimed at attracting new assets. His controversial comments called ESG a "distraction" and a false hope for addressing the real problem of climate change, even likening ESG investing to prescribing wheat grass as a cancer treatment. Mr. Fancy argues we must advocate for more government action to combat climate change rather than relying on the role of free markets and investors. (For our full response, read: *A Former BlackRock Employee Said ESG Isn't The Answer To Saving Our Future. He's Sort Of Right*.)

The Government Steps In

What surprised us most about Fancy's op-ed is that he framed ESG investing and government intervention as mutually exclusive approaches to solving our climate crisis. And yet, we believe investors should have options to invest along with values while, at the same time, governments enforce stricter rules to limit bad corporate behavior. Investors moving billions away from poor ESG performers have already and will continue to influence how companies operate. And the U.S. government is beginning to look at changing corporate requirements for things like climate reporting because investors have so loudly made these issues mainstream.

The SEC has made clear its intent to address increasing issues of greenwashing to better protect investors seeking values-aligned portfolios. On Feb. 4, 2021, acting SEC Acting Chair Allison Herren Lee explained in a public statement:

"Now more than ever, investors are considering climate-related issues when making their investment decisions. It is our responsibility to ensure that they have access to material information when planning for their financial future. Ensuring compliance with the rules on the books and updating existing guidance are immediate steps the agency can take on the path to developing a more comprehensive framework that produces consistent, comparable, and reliable climate-related disclosures."

What Is Seeds Doing?

The pivot to a net zero economy is a key consideration in all Seeds stock portfolios. Through active management and our rules-based ESG integration framework, we seek to invest in companies that can benefit from the growth of climate-related investments and evolving technology while limiting our exposures to companies less prepared to face the future.

Under the new administration, many companies that have lagged in ESG performance will face significant risk as new rules and regulations related to climate issues, products, human capital, corporate governance, and overall transparency and reporting begin to take effect.

During the first quarter, in certain Seeds portfolios we added new equities positions in Orsted (DNNGY) and Schneider Electric (SBGSY). With a $67 billion market cap, Orsted is the world leader in offshore wind generation, with a goal to double generating capacity to 15 GW by 2025. France-based Schneider Electric has an $82 billion market cap and is a world leader in energy management and energy efficiency. Schneider's stated goal is to help its customers reduce carbon emissions by 800 million metric tons from 2021 to 2025.

Table 1.

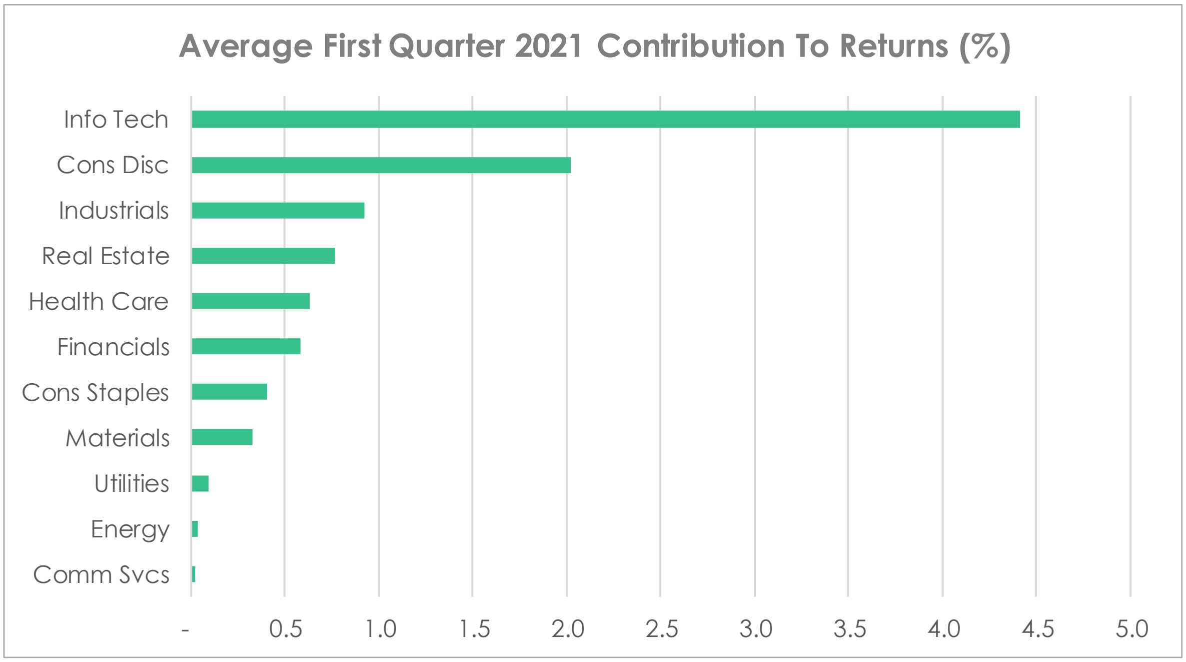
First Quarter 2021 Seeds Core Holdings Performance			
Name	**Symbol**	**Sector**	**Return**
HP Inc.	HPQ	Information Technology	29.12%
ASML Holding NV ADR	ASML	Information Technology	26.58%
CBRE Group, Inc. Class A	CBRE	Real Estate	26.13%
Jabil Inc.	JBL	Information Technology	22.64%
Trimble Inc.	TRMB	Information Technology	16.50%
Cigna Corporation	CI	Healthcare	16.12%
Eaton Corp. Plc	ETN	Industrials	15.10%
Home Depot, Inc.	HD	Consumer Discretionary	14.92%
Target Corporation	TGT	Consumer Discretionary	12.20%
Waste Management, Inc.	WM	Industrials	9.40%
Keysight Technologies Inc	KEYS	Information Technology	8.56%
LVMH Moet Hennessy ADR	LVMUY	Consumer Discretionary	7.30%
TE Connectivity Ltd.*	TEL	Information Technology	6.64%
Sysco Corporation	SYY	Consumer Staples	6.03%
Danone SA ADR	DANOY	Consumer Staples	4.96%
Sony Group ADR	SNE	Consumer Discretionary	4.86%
STMicroelectronics NV ADR RegS	STM	Information Technology	3.26%
Mettler-Toledo International Inc.	MTD	Healthcare	1.40%
W.W. Grainger, Inc.	GWW	Industrials	-1.81%
Morningstar, Inc.	MORN	Consumer Discretionary	-2.82%
Heineken NV Sponsored ADR	HEINY	Consumer Staples	-7.73%
Vestas Wind Systems A/S	VWSYF	Industrials	-10.67%
adidas AG Sponsored ADR	ADDYY	Consumer Discretionary	-14.17%
Orsted Unsponsored ADR*	DNNGY	Energy	-20.79%

*Purchased during the quarter period, so percent shown is not reflective of its performance within Seeds portfolios during the quarter. Note: Full holdings report available upon request. See additional returns disclosures at the end of this document. Core holdings are those positions that Seeds believes screen strongest regardless of client values priorities and therefore are included in all client portfolios.

During the first quarter, Seeds equities portfolios on average[1] gained 9.8% versus 6.1% for the S&P 500 Index. Performance was led by technology, consumer discretionary, health care, real estate, materials, and financials. All these sectors outperformed the S&P 500 in the first quarter. Laggards include energy, consumer staples, industrials, and utilities (chart 1).

1. "Average" refers to the average performance of all existing Seeds model allocations. Full performance reports available upon request.

Chart 1.



Note: "Average" refers to the average performance of all existing Seeds model allocations. Full performance reports available upon request. Contribution to return measures the contribution of the sector constituents to the portfolio's overall return.

At the end of the first quarter, our Seeds equities portfolios on average over-weighted consumer discretionary, consumer staples, industrials, materials, and real estate relative to the S&P 500. Our portfolios were underweight communication services, financials, and health care. Our portfolios were equal weight information technology, energy, and utilities (table 2).

While Seeds does not purposefully deviate from S&P 500 sector weightings, each Seeds allocation may include sector variability relative to each other and to the benchmark based on the investable universe availability and on client values prioritization.

Table 2.

Aggregate Sector Weights Vs. S&P 500 (proxy)		
Sector	**Seeds Aggregate**	**S&P 500**
Information Technology	27.4%	26.6%
Consumer Discretionary	16.2%	12.3%
Industrials	12.4%	8.9%
Consumer Staples	11.6%	6.2%
Health Care	9.9%	13.0%
Financials	7.3%	11.4%
Materials	4.2%	2.7%
Energy	2.3%	2.9%
Communication Services	2.1%	10.8%
Other	6.5%	5.1%

Note: "Aggregate" represents the total stock universe available for Seeds allocations. Figures exclude cash position.

As Seeds continuously assesses earth, people, and corporate integrity (EPI) criteria related to every investable company, we seek those that demonstrate superior EPI characteristics, particularly related to measurable risk management, along with strong fundamental financial factors. Seeds' overriding discipline is a relentless focus on quality, with a strict regard to valuation over a long-term time horizon. We continue to focus on the quality of management, quality of the business model, a proven track record, predictable earnings, with a return-to-shareholder philosophy. In this active approach, portfolio replacements become necessary as a result of ESG metrics, fundamental financial metrics, or deeper qualitative assessment.

During the first quarter, Seeds equities portfolios averaged 9.7% turnover, compared with 6.2% in the prior quarter, as we moved more aggressively to add larger market cap and higher-quality companies to the portfolios (tables 3 & 4). In general, we strive to keep turnover rates low and exercise tax efficiency with our trades.

Table 3.

Seeds Average Turnover Per Quarter		
Quarter	**Average Securities Per Portfolio (No.)**	**Average Turnover (%)**
Q4 2020	62	6.2
Q1 2021	62	9.7

Table 4.

Complete First Quarter 2021 Buys & Sells		
Companies Bought		
Symbol	**Name**	**Sector**
GPK	Graphic Packaging	Materials
DNNGY	Orsted ADR	Energy
ANTM	Anthem, Inc.	Health Care
SBGSY	Schneider Electric	Industrials
LOW	Lowe's Companies	Consumer Discretionary
CPRI	Capri Holdings	Consumer Discretionary
TEL	TE Connectivity Ltd.	Technology
Companies Sold		
Symbol	**Name**	**Sector**
BERY	Berry Global	Materials
MHK	Mohawk Industries, Inc.	Industrials
VAR	Varian Medical Systems	Health Care
ARW	Arrow Electronics	Technology
SCI	Service Corp. International	Consumer Discretionary
FLIR	Flir Systems, Inc.	Technology

Seeds Launches Fixed Income Strategies

In the first quarter, Seeds launched fixed income strategies to better empower advisors in delivering more holistic asset allocations that align with investor needs and financial goals. **Seeds Core Fixed Income ("SCF")** is a managed portfolio, consisting of taxable bond funds, that seeks market rate or better returns and aligns with Seeds' sustainable investment philosophy (table 5).

Table 5.

Seeds Core Fixed Income: Overview	
Structure	Separately managed account
Benchmark	US Barclays Agg
Geography	>80% North America exposure
Holdings	4-7 mutual funds and ETFs (taxable)
Expected Turnover	<25% turnover of funds; Annual rebalance
Tax Efficiency	Low turnover may minimize transaction costs
Diversification	Managed allocation to diversified funds

Seeds has partnered with best-in-class investment managers known for their fixed income investing and ESG focus, including BlackRock, iShares, and Nuveen. We continually engage with each portfolio management team to understand their investment processes and ensure each approach—and the collective of approaches—reasonably aligns with Seeds' overarching investment philosophy.

All but one of the funds in the strategy are ESG integrated, which means the fund incorporates material ESG factors alongside financial metrics, which collectively could affect an issuer's long-term performance and viability.
The strategy does not take any intentional "bets" by way of overweighting in currency, duration, credit, etc., and instead the strategy seeks overall alignment with the U.S. Barclays Agg, though can vary somewhat from the makeup of the benchmark for the sake of ESG quality. Seeds' Investment Committee reviews the SCF holdings regularly and has an ongoing relationship with each asset manager. We do not expect high turnover in this portfolio, particularly given active management by way of the individual funds constitutes about 50% of the overall strategy.

In Seeds Core Equity Portfolios, Seeds chooses and manages customized baskets of stocks for each client based on preferences. SCF, however, exists as a single separately managed account and consists of mutual funds and ETFs. Seeds takes this approach for several reasons, including that the direct purchase of taxable bonds requires large investment minimums as well as difficulty for access to the market with limited scale. Fixed income mutual funds and ETFs are diversified and trusted by advisors and institutions alike.

About 80% of the SCF is in core fixed income funds ranging from pure indexing to systematic active management. There are no "tactical" funds, but flexibility to market risk and opportunity exists by way of active fund management in certain funds to varying degrees. We gain some international exposure through the funds, which collectively can invest up to 25% internationally. We also gain exposure to green and social bonds through the funds, though none of the funds are explicitly focused on green or social bond exposure. While we seek specific impact through the funds, we aren't willing to own impact bonds at the cost of poorer ESG quality related to the issuers of such bonds.

The **AllianceBernstein Municipal Impact Fixed Income Portfolio ("AB Muni Impact")** is a core tax-exempt bond strategy with a positive impact. AB Muni Impact aligns with Seeds' investment philosophy of investing for both values-based and financial outcomes (table 6).

Table 6.

AllianceBernstein Municipal Impact: Overview	
Structure	Separately managed account
Benchmark	Bloomberg Barclays Municipal Bond Unhedged Index
Geography	>80% North America exposure
Holdings	10-15 tax-exempt bonds + completion fund
Expected Turnover	<25% turnover of the holdings
Tax Efficiency	Holdings are federally tax-exempt
Diversification	Diversified across muni sectors and geographies

AB Muni Impact is made up of individual tax-exempt bonds. The strategy complements the SCF taxable bond portfolio and Seeds Core Equity as part of a full, customized Seeds investment portfolio.

Each client holds a diversified group of tax-exempt bonds across municipal sectors and geographies that have merit from a financial and ESG integration perspective. AB Muni Impact invests in issues that deliver a positive social and environmental impact, with a focus on underserved and low socioeconomic status communities.

For more information regarding SCF, AB Muni Impact, or anything else related to Seeds, please reach out to support@seedsinvestor.com or visit our website at www.seedsinvestor.com.

Disclosures

This commentary was written by members of the investment committee at Seeds Investor LLC ("Seeds"), a Registered Investment Adviser located in New York State, headquartered at 311 W. 43RD Street, New York, NY 10036. Tel. 212-287-7370. This document is for your private and confidential use only and not intended for broad usage or dissemination. The commentary is not intended as specific advice and does not constitute an offer to sell securities. Consult your financial professional before making any investment decision. Seeds is an investment adviser and offers asset management services. Advisory services are only offered to clients or prospective clients where Seeds and its representatives are properly licensed or exempt from licensure.

Past performance is no guarantee of future results. Gross returns do not reflect the deduction of any expenses, including trading costs, and are presented as supplemental information to net returns. Each client's returns will vary based on the client's actual portfolio holdings and the actual fees charged to the account. Seeds began managing advisory client assets in March of 2020. Gross of fee since inception returns will be reduced by investment advisory fees and other expenses that may be incurred in the management of the account.

Using the effect of investment advisory fees on the total value of a client's portfolio assuming (a) monthly fee assessment, (b) $1,000,000 investment, (c) gross returns as shown in table 1 and (d) the highest possible annual investment advisory fee of 0.75% would produce for the time period shown returns of 28.93%, 26.39%, 25.94%, 22.46%, 16.32%, 15.93%, 14.91%, 14.73%, 12.01%, 9.22%, 8.37%, 7.12%, 6.45%, 5.85%, 4.77%, 4.67%, 3.07%, 1.22%, -2.00%, -3.01%, -7.92%, -10.86%, -14.35%, -20.98%, based on the holdings above, respectively. The advisor's applicable fees are described in Part 2A of the Form ADV. Diversification/asset allocation does not ensure a profit or guarantee against a loss. Please contact your financial professional for your actual historical returns, as well as the reporting of all balances and securities transactions.

AllianceBernstein Municipal Impact Fixed Income is a strategy managed by AllianceBernstein L.P. ("AB"). All portfolio statistics, characteristics and holdings are subject to change. There can be no assurance that any investment objectives will be achieved.

Bloomberg Barclays Municipal Bond Unhedged is broad market performance benchmark for the tax-exempt bond market. The Standard & Poor's 500 Index (S&P 500) is an unmanaged group of securities considered to be representative of the stock market. The Bloomberg Barclays US Aggregate Bond Index (Agg) is a broad base, market capitalization-weighted bond market index representing intermediate term investment grade bonds traded in the U.S.