

Lessons from the Field

APRIL 2015

sonen capital

2014 ANNUAL IMPACT REPORT

Impact Investing in Public Markets: Methodology, Analysis and Thought Leadership

www.sonencapital.com



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2014 ANNUAL **IMPACT** REPORT

Impact Investing in Public Markets: Methodology, Analysis and Thought Leadership

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PREFACE FROM WILL MORGAN, SONEN CAPITAL SENIOR IMPACT ANALYST



In Sonen Capital's second annual impact report, we are proud to present the specific details of the 2014 social and environmental impact performance of our fixed income and public equity strategies.

Sonen specializes in the construction and management of portfolios that aim to deliver both financial and impact returns for investors. The combination of varying investment approaches and investment styles represented in our strategies can provide both financial and impact diversification. Sonen communicates this impact through the use of aggregated Environmental, Social and Governance (ESG) data. Sonen also is committed to aligning our strategies with critical impact themes, including climate change and resource scarcity.

During 2014, the impact investing industry expanded by nearly 20% (from \$10.6 billion in 2013 to \$12.7 billion in 2014).¹ As the industry continues to grow, Sonen will document how the public markets can play a major role in actively addressing the world's most

pressing social and environmental challenges while providing competitive investment returns. Further, our shareholder advocacy and corporate engagement activities continue to enhance the underlying sustainability performance, accountability and transparency of our public markets strategies.

As Sonen builds on our impact reporting and evaluation methodologies, we will continue to monitor growing evidence that companies with greater sustainability performance can demonstrate improved financial performance. This phenomenon is consistent with Sonen's strong belief that proactively managing ESG risks not only enhances financial performance, but also delivers meaningful and measurable social and environmental impacts.

This report provides a detailed analysis of the impact performance of Sonen's investments in 2014 and lays out our framework for continued development of relevant impact measurement methodologies across asset classes and investment vehicles. We are eager to broadly share the results of our work, and post regular updates and publications to our web site. Please keep apprised of our work and leadership in impact measurement and reporting at www.sonencapital.com.

Note: All investments carry a risk of loss, including the loss of principal. Diversification does not ensure a profit or protect against a loss.

WILL MORGAN

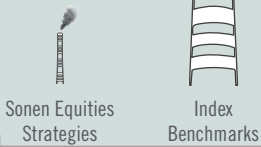
*Director
Senior Impact Analyst*

Public Markets Investing at Sonen Capital

A Comparison of ESG data for Sonen public equity strategies and their respective benchmarks

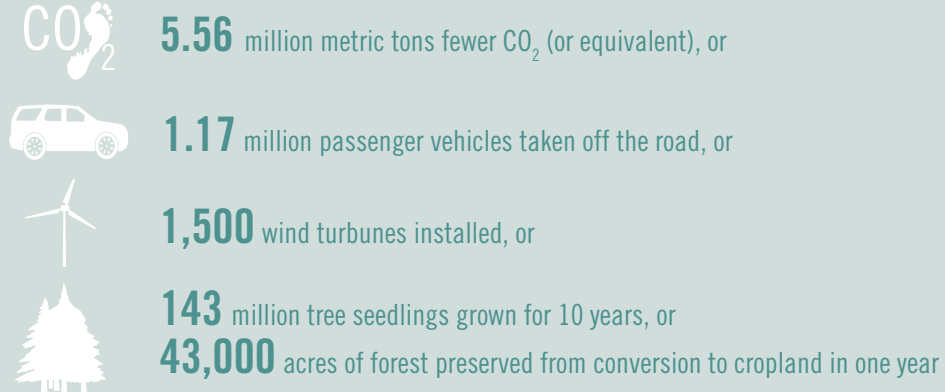
7X Fewer Carbon Emissions

as measured by total weighted carbon emissions compared to traditional equities' benchmarks



FY 2013

This is equivalent to...¹



117X Less Water Used

on average per million dollars of sales compared to traditional equities benchmarks



This is equivalent to...

52,712 Olympic sized swimming pools²
6.12 Showers for every man, woman and child in the USA³

18.2% More Women on Corporate Boards

than average representation compared to traditional benchmarks

than average representation compared to traditional benchmarks

83% Exceed Average Health & Safety Rankings

compared to traditional benchmarks

compared to traditional benchmarks



6 Shareholder Resolutions Co-filed

3 Political Spending & Lobbying Disclosure

2 Climate & Environment

1 Corporate Governance

1. EPA.gov: Greenhouse Gas Equivalencies Calculator
2. Wiki Answers: How much water does an Olympic Sized Swimming Pool Hold?
3. EPA.gov. WaterSense Fact Sheet. Save Water and Energy By Showering Better

Data Source: MSCI ESG Research
Equities Benchmarks: MSCI ACWI Index and MSCI USA Index

IMPACT INVESTING IN PUBLIC MARKETS



EXECUTIVE SUMMARY

Sonen Capital seeks to provide its clients with competitive financial returns alongside meaningful, positive social and environmental benefits. We believe that Sonen's public markets impact investment solutions, encompassing public equity and fixed income strategies, provide investors with exposure to industry leaders in corporate sustainability practices and multiple social and environmental impact themes.

Our clients share the firm's belief that public markets investing can help address large-scale global challenges, and that carefully constructed investment strategies utilizing the public markets can contribute to specific, positive global social and environmental changes while achieving competitive financial returns.

In 2014, two of Sonen's four investment strategies (US Core Fixed Income, Global Fixed Income, US Public Equity and Global Equity) provided both comparable financial returns, measured against traditional market benchmarks, as well as compelling social and environmental impact.

Relative to traditional market benchmarks, Sonen's

investment strategies in 2014 demonstrated significantly better sustainability performance evidenced through:

- Reduced carbon emissions, pollution and water use;
- Improvements in worker health and safety; and
- Greater gender diversity on corporate boards.

Specific thematic investments in public markets—investments in companies that actively provide solutions for the world's social and environmental challenges—focused on:

- Energy use and energy efficiency;
- Water conservation;

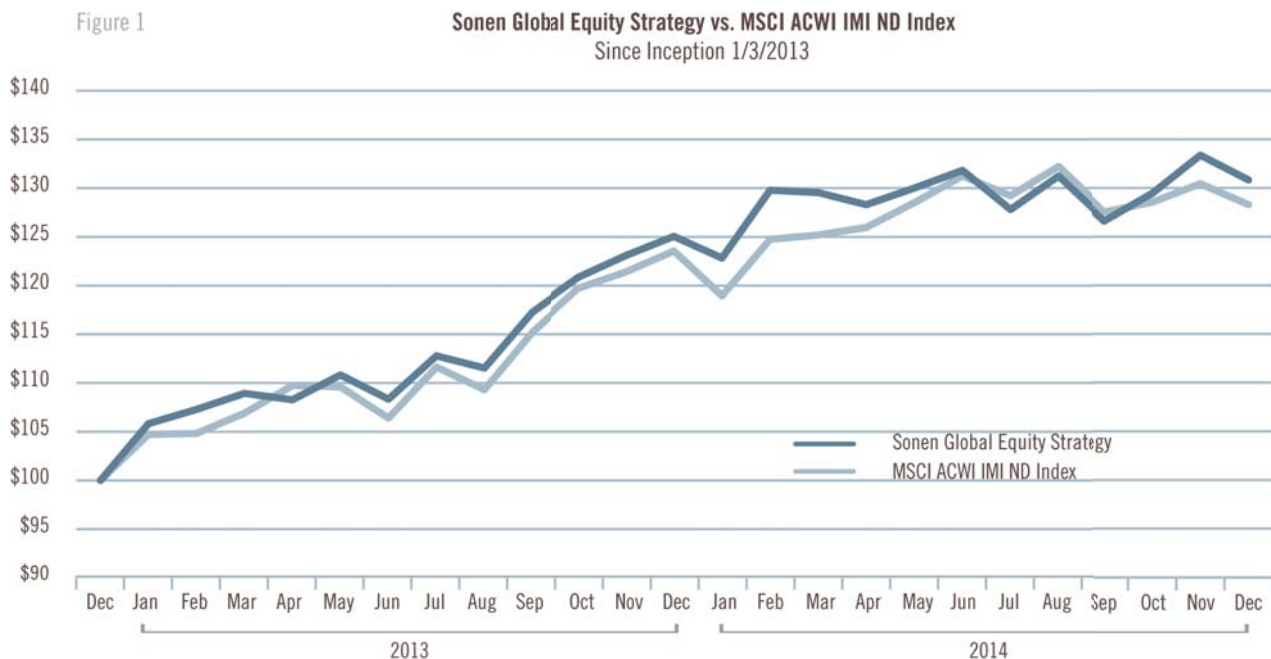
- Waste and pollution management; and
- Community development.

To further enhance the overall impact performance of our public markets strategies, Sonen strengthened its activities in 2014 related to shareholder advocacy, including:

- Supporting 115 individual shareholder resolutions in the form of proxies;
- Co-filing directly six shareholder resolutions; and
- Engaging directly with corporate management to increase corporate transparency and sustainability performance.

Below, we have summarized the investment performance for the four investment strategies managed by Sonen in 2014:

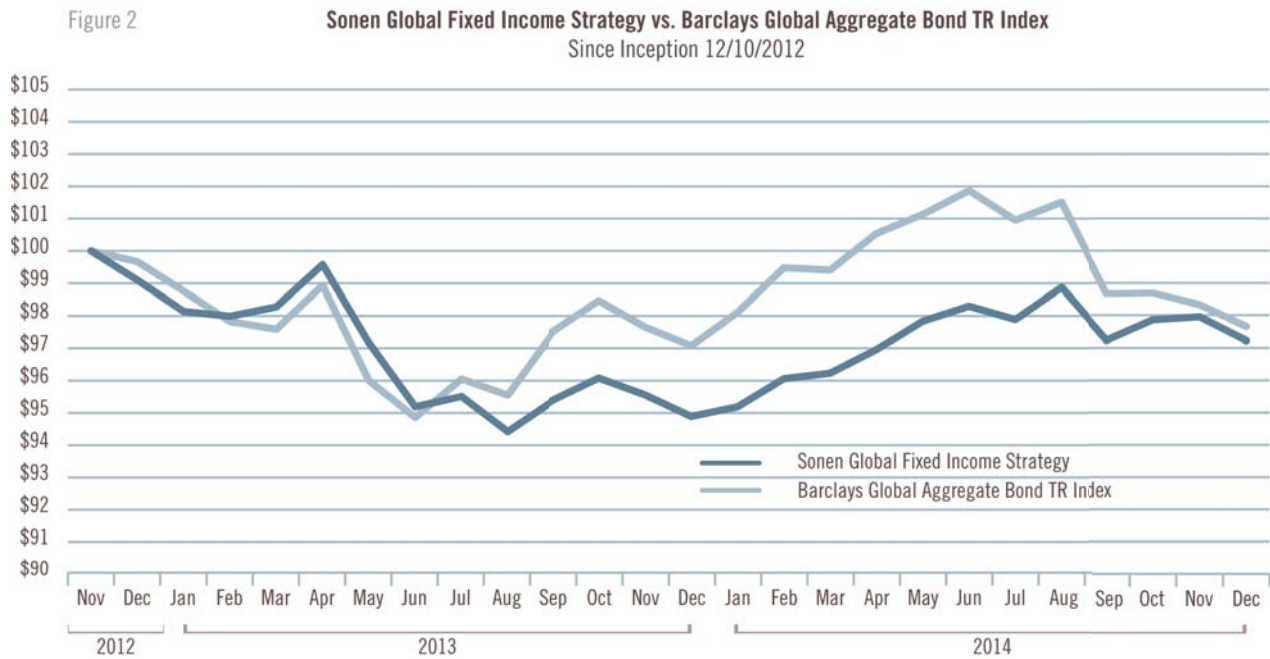
In 2014, the Sonen Global Equity strategy returned 4.62% (net of all fees) vs. 3.84% for the MSCI ACWI Index, outperforming by 0.78%. Since inception, the strategy has returned an annualized 14.39% vs. 13.29% for the benchmark, an outperformance of 1.10%, net of all fees.



Past performance is no indication of future results. Index returns are presented for comparative purposes only. The returns are unmanaged and do not reflect the deduction of any fees or expenses. You cannot invest directly in an index. Foreign and emerging market securities involve certain risks such as currency volatility, political and social instability and reduced market liquidity. This performance is included for informational purposes only, to demonstrate that impact investing does not necessarily sacrifice strong investment performance. The performance shown does not necessarily reflect the portfolio's current performance, which may be higher or lower than the performance shown. For the most current performance, contact Sonen.

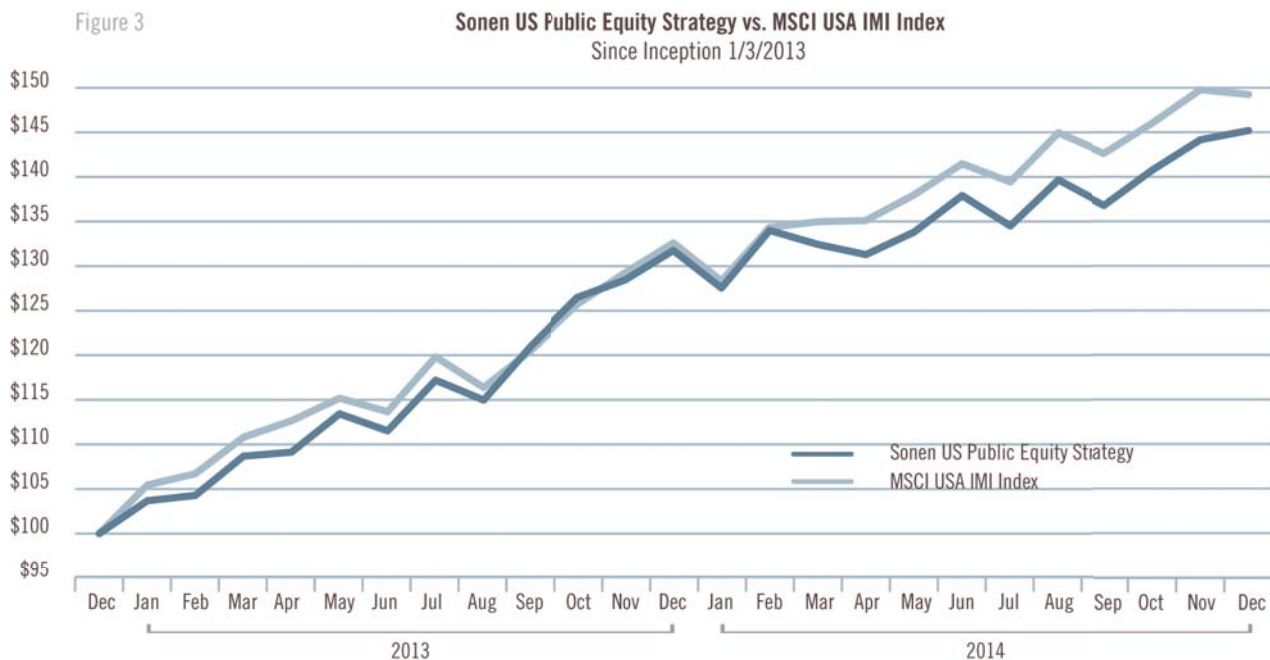
EXECUTIVE SUMMARY

In 2014, the Sonen Global Fixed Income Strategy returned 2.46% (net of all fees) vs. 0.59% for the Barclays Global Aggregate Index, outperforming by 1.87%. Since inception, the strategy has returned -1.35% annualized vs. -1.15% for the benchmark, underperforming by -0.20%.



Investments in bonds are subject to credit, prepayment, call and interest rate risk. As interest rates rise, bond prices will decline. Credit risk refers to the loss in the value of a security based on a default in the payment of principal and/or interest of the security, or the perception of the market of such a default.

In 2014, the Sonen US Public Equity strategy returned 10.20% (net of all fees) vs. 12.69% for the MSCI USA IMI Index, underperforming by -2.49%. Since inception, the strategy has returned an annualized 20.51% vs. 21.92% for the benchmark, an underperformance of -1.41%.



In 2014, the Sonen US Core Fixed Income strategy returned 3.86% (net of all fees) vs. 5.97% for the Barclays US Aggregate Index, underperforming by -2.11%. Since inception, the strategy achieved an annualized return of 0.65% vs. 1.77% for the benchmark, underperforming by -1.12%.

Figure 4 **Sonen US Core Fixed Income Strategy vs. Barclays US Aggregate Bond TR Index**
Since Inception 12/10/2012





IMPACT INVESTING IN PUBLIC MARKETS

THE CASE FOR IMPACT INVESTING IN PUBLIC MARKETS

At Sonen, we believe that specific social and environmental impacts are not limited to any single asset class. Rather, diversified and optimized impact is the result of combining complementary approaches to impact investing across key sustainable practices and impact themes, regardless of asset class category.

Impact investing in public markets can offer investors a way to simultaneously achieve competitive financial returns and pursue positive impact creation. Impact investors in public markets make conscious choices about how their financial resources are deployed by identifying corporations with leading sustainability practices, and/or those companies that are proactively addressing social and environmental issues.

Along these lines, we believe that growing evidence suggests that greater sustainability practices result in both compelling financial benefits and increased impact creation. The public markets play a crucial role in this development by helping foster a well-functioning impact capitalism ecosystem. By accessing the public markets, companies typically can raise money at more favorable terms than by relying on venture capitalists or other private investors. The public markets also provide

Public Markets Can Provide Compelling Impact Opportunities

- Public markets can provide capital at favorable terms to impact entrepreneurs
- Visibility into corporate practices allows investors to align investments with desired impact goals
- Corporate sustainability practices can lead to both greater financial and impact gains over time
- Shareholders can influence corporate behavior through shareholder resolutions and other means

greater public awareness. By lowering the cost of capital and by raising their public profile, these companies can grow at faster rates than they otherwise would which, in turn, can provide the opportunity to create impact at greater scale. This makes it possible for companies to compete more effectively—ultimately providing a financial advantage that, when combined with sustainable practices or a thematic focus, can translate into positive environmental and social outcomes.

The public markets also serve as the ultimate exit opportunity for any private markets investment by providing liquidity to the aspiring impact entrepreneur. The ability to realize the value created by new innovations serves to attract a greater number of entrepreneurs to the impact space. This creates the necessary momentum for the impact investing movement as a whole to flourish.

In addition, if the markets realize that an impact thesis is undervalued, capital will flow to support these companies, thus further growing the impact ecosystem. By actively investing in companies that we believe are best able to scale sustainably and generate social and environmental good, we believe that industry peers will follow suit so that they too can remain competitive. The ultimate outcome would be to have sustainability practices become the norm.

Lastly, public markets investing, including cash (22%), public equities (41%) and fixed income instruments (20%), comprise 83% of overall investable assets for US investors with a total net worth of greater than \$100,000, according to a recent investor survey conducted by Morgan Stanley.² This scale correlates directly to the power and potential to influence corporate behavior. Many investors are increasingly incorporating sustainability expectations and themes into their investment portfolios, alongside greater shareholder pressure for corporate disclosure on sustainability and improved sustainability performance overall. We believe that capital mobilization is a critical component to solving these large-scale social and environmental problems. Indeed, this view is expanding into the mainstream, as evidenced by record numbers of shareholder resolutions filed that seek to address pressing social and environmental challenges. Not coincidentally, rates of corporate sustainability disclosure are rapidly increasing.

In public markets impact investing, it can be difficult to determine how, and what, impact may result from investors' decisions. To aid in this measurement, Sonen's internally developed evaluation framework seeks to demonstrate how impact in different investments across varied asset classes, including public markets asset classes, can be evaluated and measured. This framework suggests that the public markets, as an

THE CASE FOR IMPACT INVESTING IN PUBLIC MARKETS

essential component of an impact investor's portfolio, do indeed help create and contribute to positive social and environmental outcomes. The following section of this report describes Sonen's impact evaluation framework in detail.

The AIMS Impact Evaluation Framework

Not all asset classes lend themselves to easily measured social or environmental impact. However, we believe that impact exists even if it is not immediately quantifiable. Just as asset classes vary fundamentally in their financial risk and return characteristics, so too do their impact characteristics. Thus the industry must use more subtle and often indirect means to assess impact and to capture the nuances of impact creation across asset classes—in particular, those asset classes available in the public markets.

Sonen's impact evaluation framework helps investors better understand the overall impact that their investments generate across asset classes. This evaluation framework allows us to assess the intrinsic impact of any investment across four dimensions: Additionality, Intentionality, Measurability and Scale (AIMS). These terms are defined below.

- **Additionality:** The incremental positive impact that results from an investment, beyond what would have otherwise happened;
- **Intentionality:** Making an investment with the intention of achieving a specific impact objective;
- **Measurability:** The extent to which impact outputs can actually be observed, measured and quantified; and
- **Scale:** The size and amount of impact achieved by a particular investment.

The combined application of these four dimensions allow us to evaluate the inherent and potential impact of any investment in any asset class, as well as help investors to better understand their role in impact creation. We do not believe that any one of these four dimensions is necessarily more important than another; indeed, whether a particular investment is more impactful than another does not depend on the existence of all four of these dimensions in a single holding and often can depend on an investor's specific impact objectives.

AIMS Impact Example: Assessing the Impact of Two Water-related Investments

To illustrate how Sonen deploys the AIMS Impact Evaluation Framework, consider the impact comparison of two water-related investments.³ Because the AIMS Framework can be used to evaluate any investment, in this example we compare an investment available through the public markets with one that is accessible via private equity.

1. **A municipal bond** that finances expansion and upgrades of local water and sewerage infrastructure; versus
2. **A private equity investment** focusing on technologies for water efficiency and water treatment.

| AIMS | Municipal Bond | Private Equity |
|-----------------------|---|--|
| | Water and sewerage infrastructure (treatment, facilities, flow control) | Emerging and high growth companies focused on technology for water efficiency and water treatment |
| Additionality | Medium: Investors' proceeds provide direct finance to underlying projects, although individual investors' proportionate contribution is relatively small. | High: Investors' proceeds flow directly to underlying companies and enable ongoing operations; individual investors' proportionate contribution is relatively large. |
| Intentionality | Dependent upon specific impact objectives among individual investors. | |
| Measurability | Low: While outputs are tangible/physical, quantifying specific impact is difficult (e.g., expanded sewerage services, reducing overflows, new treatment plants). | High: Technology focused on efficiency gains and treatment technology can be quantified more easily (e.g., reduced water use or volume of water treated via specific technology or innovation). |
| Scale | High: Municipal bond financing for water and sewer facilities totaled \$36 billion in 2012, trailing only schools in municipal finance. ⁴ | Low: Until market adoption, scale of impact is low, though the potential for higher scale exists after the technology is widely deployed. |

Note: Bonds that represent obligations of specific municipal issuers may be affected by economic, political or other events affecting these issuers. Investments in private equity involve a high degree of risk and are not suitable for all investors.

In this case, while private equity investors have a more direct connection between their investments and the outputs of the companies in which they invest (manifested through Additionality and Measurability), the Scale at which these private equity companies operate is significantly less than the Scale achieved by the water-focused municipal bond market.

Intentionality in the AIMS Framework reflects the intended impact of an investor's conscious choices, which are reflective of personal values or institutional impact objectives. The more specific such objectives are, the better the AIMS Framework can capture the degree to which any specific investment aligns with these objectives. In the above example, it is assumed that, in both cases, an investor wants to invest in water as a limited natural resource vital to human and ecological survival which, in turn, makes it an attractive investment for financial reasons.

Sonen is continually refining our impact evaluation process and plans to release additional research and detail on our impact evaluation framework throughout 2015.

THE CASE FOR IMPACT INVESTING IN PUBLIC MARKETS

Sonen's Impact Methodology

Sonen classifies investments as either Sustainable or Thematic. The characteristics of Sustainable and Thematic investments are described below:

- Sustainable exposures in our public markets strategies actively integrate ESG data into investment decision-making to reveal related sustainability risks and opportunities. Sonen's public markets strategies seek to provide access to equities and fixed income securities that exhibit industry leadership along ESG dimensions such as GHG emissions, workforce safety or corporate transparency. Sonen's strategies are constructed specifically for their ESG performance attributes.
- Thematic exposures in our public markets strategies target issue areas where social or environmental markets offer specific commercial growth opportunities. Thematic exposures are highly targeted and relate to the production of goods and services that are used to help address issues such as climate change, resource scarcity or the needs of low-income communities. Thematic securities drive social and environmental benefit in response to increasingly urgent social and ecological needs across the globe.

Sonen evaluates and reports Sustainable impact exposures through Key Performance Indicators (KPIs) derived from ESG data at the portfolio level. Aggregate KPIs are compared to relevant market benchmarks to determine relative performance for each KPI.⁵ Thematic exposures are evaluated by the proportion of assets in each strategy that are directly addressing specific social

and environmental challenges.

Starting on page 16, see more detailed information and performance evaluation of Sonen's Sustainable and Thematic characteristics within our public equity and fixed income strategies.

Low-Carbon and Fossil Fuel Investing at Sonen Capital

As a demonstration of the effectiveness of Sonen’s investment process, our strategies held virtually no oil and gas-related securities in 2014. Remaining holdings constitute only 0.26% of Sonen’s public equities strategies.

Apart from having de minimus exposure to the oil and gas industries and sub-industries, Sonen’s equity and fixed income holdings maintained a significantly lower level of carbon emissions relative to their respective benchmarks. Consistent with the Divest-Invest Philanthropy campaign⁶, Sonen’s fixed income and equity positions included explicit exposure to themes in renewable energy, energy efficiency, low-carbon infrastructure and water.

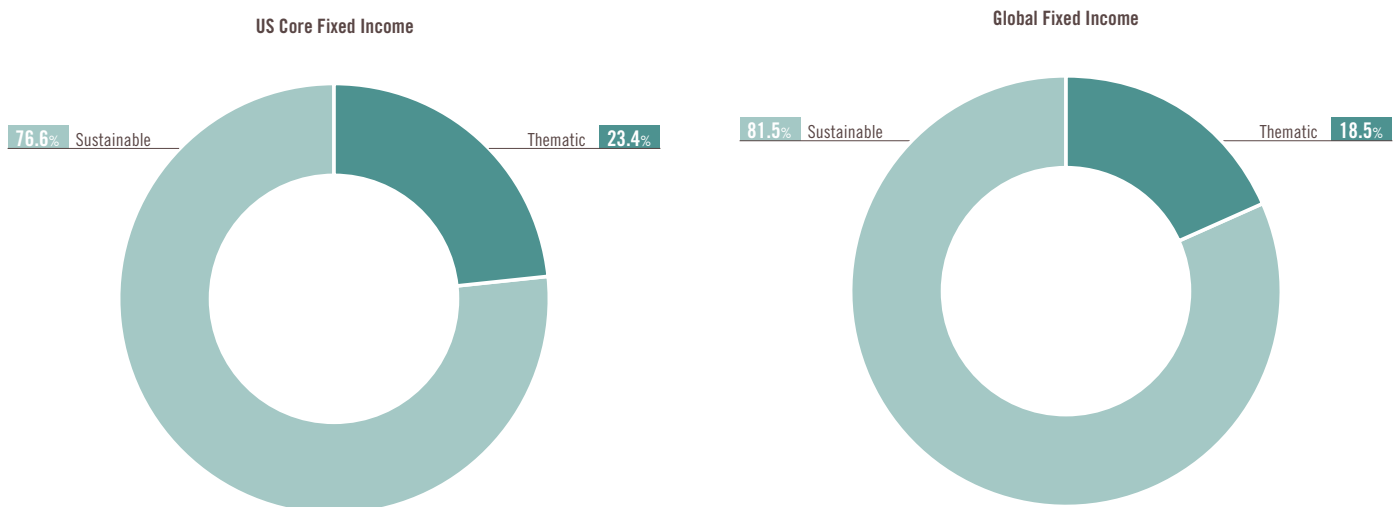
Please refer to the section “Sonen Impact Evaluation: Thematic Investing” starting on page 34 for more information on how Sonen invests in the energy sources of the future.

IMPACT INVESTING IN PUBLIC MARKETS

IMPACT INVESTING IN FIXED INCOME

In 2014, Sonen's fixed income strategies included US-based holdings (US Core Fixed Income) and global based holdings (Global Fixed Income). Each holding in these two strategies was classified as either Sustainable or Thematic. In this section, we report on the specific impact of our 2014 fixed income holdings.

Figure 5: Breakdown of Sustainable and Thematic exposures in Sonen's Fixed Income Strategies



Sustainable exposures comprised 77% and 82% of Sonen's US Core Fixed Income and Global Fixed Income strategies, respectively. Thematic exposures comprised 23% and 18% of US Core Fixed Income and Global Fixed Income investment strategies, respectively.

Sustainable Investing in Fixed Income

Sustainable investments are measured by how they operate and conduct business. Sonen evaluates these investments through the use of ESG performance data. Aggregating such ESG data can communicate portfolio-level sustainable performance, and otherwise help investors express intentionality through the pursuit of specific social or environmental performance.

Though the process of security selection in Sustainable impact investing can vary considerably in approach and execution, depending on the type of company being evaluated and the type of impact desired, all methodologies for security selection integrate ESG performance indicators in some form. Certain ESG indicators are weighted differently so as to evaluate the impact issues most germane to each industry. For example, ESG analysis for an apparel company with factories abroad will be more weighted towards supply chain and labor law issues.

Such ESG integration widens the scope of security selection to consider how various ESG issues may affect risk and shareholder value over time, and also provides a lens through which investors can evaluate related impact performance.

Sonen's 2014 Sustainable exposures in fixed income (77% for US Core Fixed Income and 82% for Global Fixed Income) reflected an array of methodologies through which ESG considerations were integrated into investment decision-making.

“Sustainable investing helps impact investors express intentionality through the pursuit of specific social or environmental performance.”

IMPACT INVESTING IN FIXED INCOME

Sustainable exposures in Sonen's fixed income strategies included:

- US municipal bonds that provided essential services in specific sectors (infrastructure, education, sanitation) and whose issuers maintained ESG performance that enhances credit ratings;
- Corporate issuances by companies whose ESG performance enhanced credit quality and increased prospects for long-term valuation; and
- Sovereign bonds from federal governments that exhibited the best relative performance along specific sustainability dimensions, such as rates of education and healthcare, gender equity in government and corruption ratings.

Thematic Investing in Fixed Income

While Sustainable investments are evaluated on how the issuer operates and conducts business, Thematic investments are evaluated on what the issuers do—namely, goods and services that directly address specific social and/or environmental needs. Fundamental macro- and socio-economic drivers related to population growth, increasing urbanization, climate change and resource scarcity create innumerable opportunities for impact investors to align resources with solutions to the challenges these drivers present. We believe that Thematic investing provides some of the most clear and tangible evidence of the creation of positive social and environmental impact through targeted investments.

Sonen's Thematic fixed income holdings (23% of US Core Fixed Income and 18% of Global Fixed Income in 2014) included corporate bonds, municipal bonds, agency debt, sovereign government bonds and supranational debt whose proceeds target specific social and environmental themes.

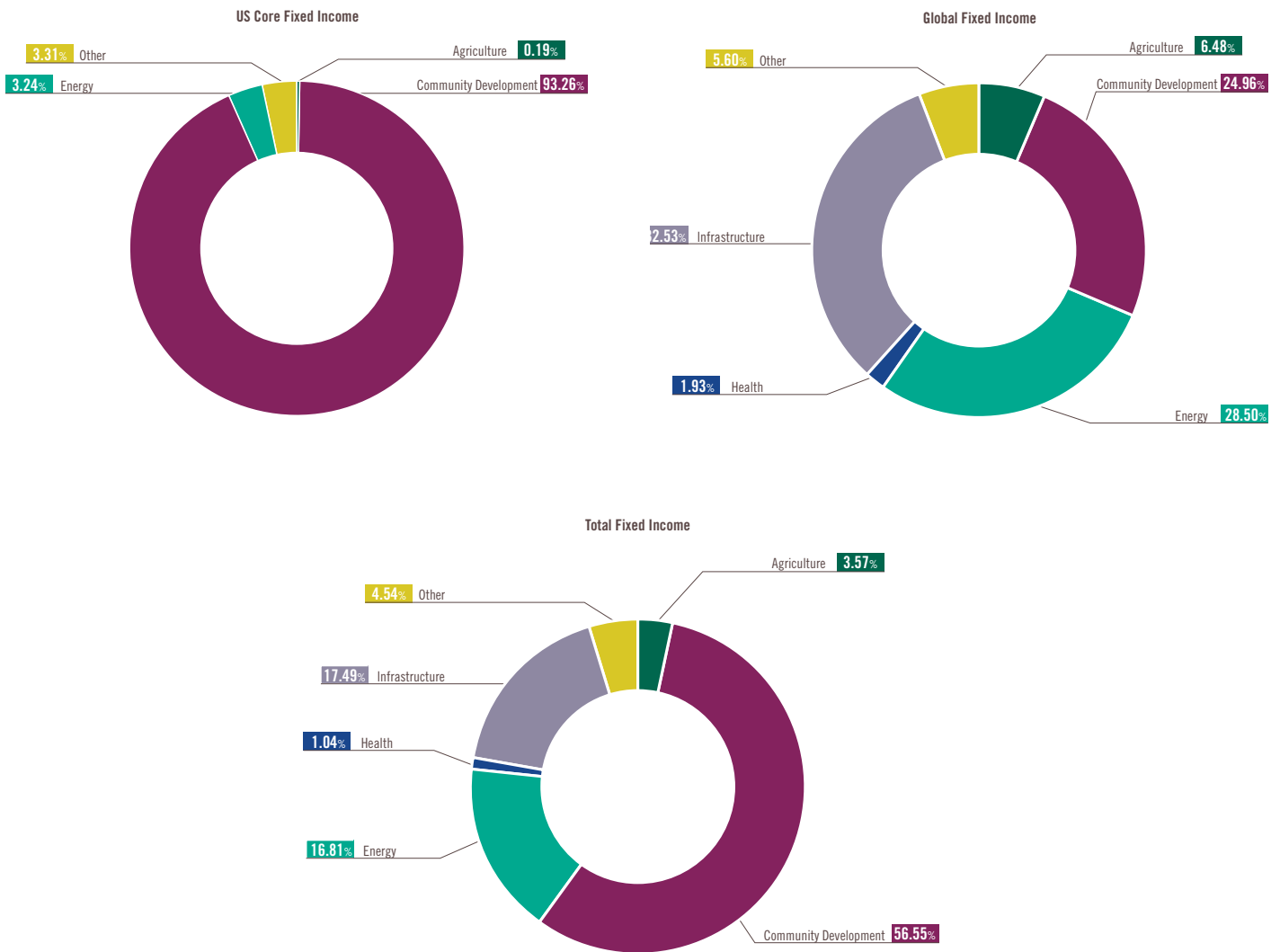
Within Sonen's fixed income strategies, prominent impact themes included:

- Community and economic development projects and financial services to low-income regions of the United States, including home ownership, affordable rental housing and small business creation;
- Municipal bonds that financed essential local services, such as environmental utilities, education, healthcare and basic infrastructure;
- Corporate and agency issuances related to renewable energy, climate change and affordable housing; and
- Large-scale, multi-sector infrastructure projects that helped rapidly growing economies adapt to and mitigate the effects of climate change.

In 2014, Sonen increased its focus on community economic development, environmental utilities, public infrastructure and alternative energy. Sonen also added

one bespoke investment strategy: a municipal bond strategy focused on health care, housing, education, infrastructure and other “green” revenue bonds.

Figure 6: Thematic Impact Breakdown in Sonen’s Fixed Income Strategies

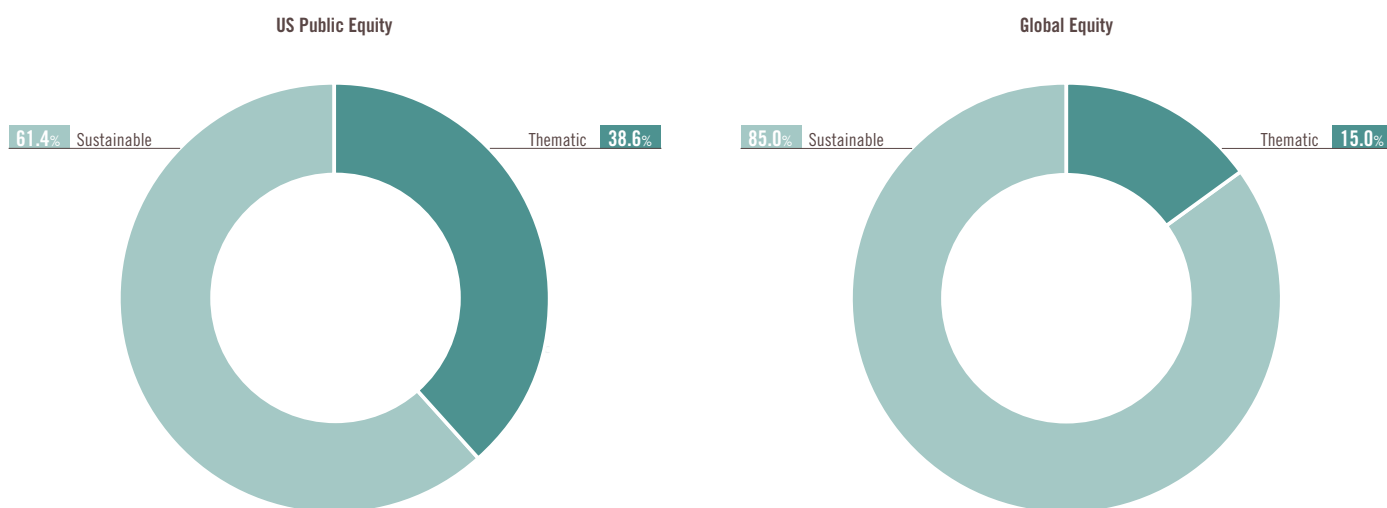


IMPACT INVESTING IN PUBLIC MARKETS

IMPACT INVESTING IN PUBLIC EQUITY

Similar to Sonen's Fixed Income strategies, in 2014 our investments in public equities included both US-based holdings (US Public Equity) and global holdings (Global Equity). Each holding in these two strategies was classified as either Sustainable or Thematic. In this section of the report, we describe the specific impact of our 2014 public equity holdings.

Figure 7: Breakdown of Sustainable and Thematic Exposures in Sonen's Public Equity Strategies



Sustainable exposures comprised 61% of Sonen's US Public Equity and 85% of Sonen's Global Equity investment strategies, respectively. Thematic exposures comprised 39% and 15% of US Public Equity and Global Equity investment strategies, respectively.

Sustainable Investing in Public Equity

Similar to fixed income, Sustainable exposures in public equity are evaluated through the use of ESG performance indicators. Across Sonen's Sustainable investments, ESG data is integrated into the investment decision-making process to help create the following outcomes:

- Select companies that exemplify best-in-class sustainability performance, evaluated through ESG indicators germane to specific industries;
- Reduce ESG risks that can negatively affect shareholder value;
- Identify desirable ESG performance that creates positive sustainability outcomes; and
- Identify companies best positioned to benefit from a long-term transition to sustainable global economic development.

“Thematic public equity investments are complementary and diversified, providing highly targeted impact across environmental and social themes.”

IMPACT INVESTING IN PUBLIC EQUITY

Thematic Investing in Public Equity

Sonen's Thematic public equity investments are complementary and diversified, providing highly targeted impact across environmental and social themes. These include the following:

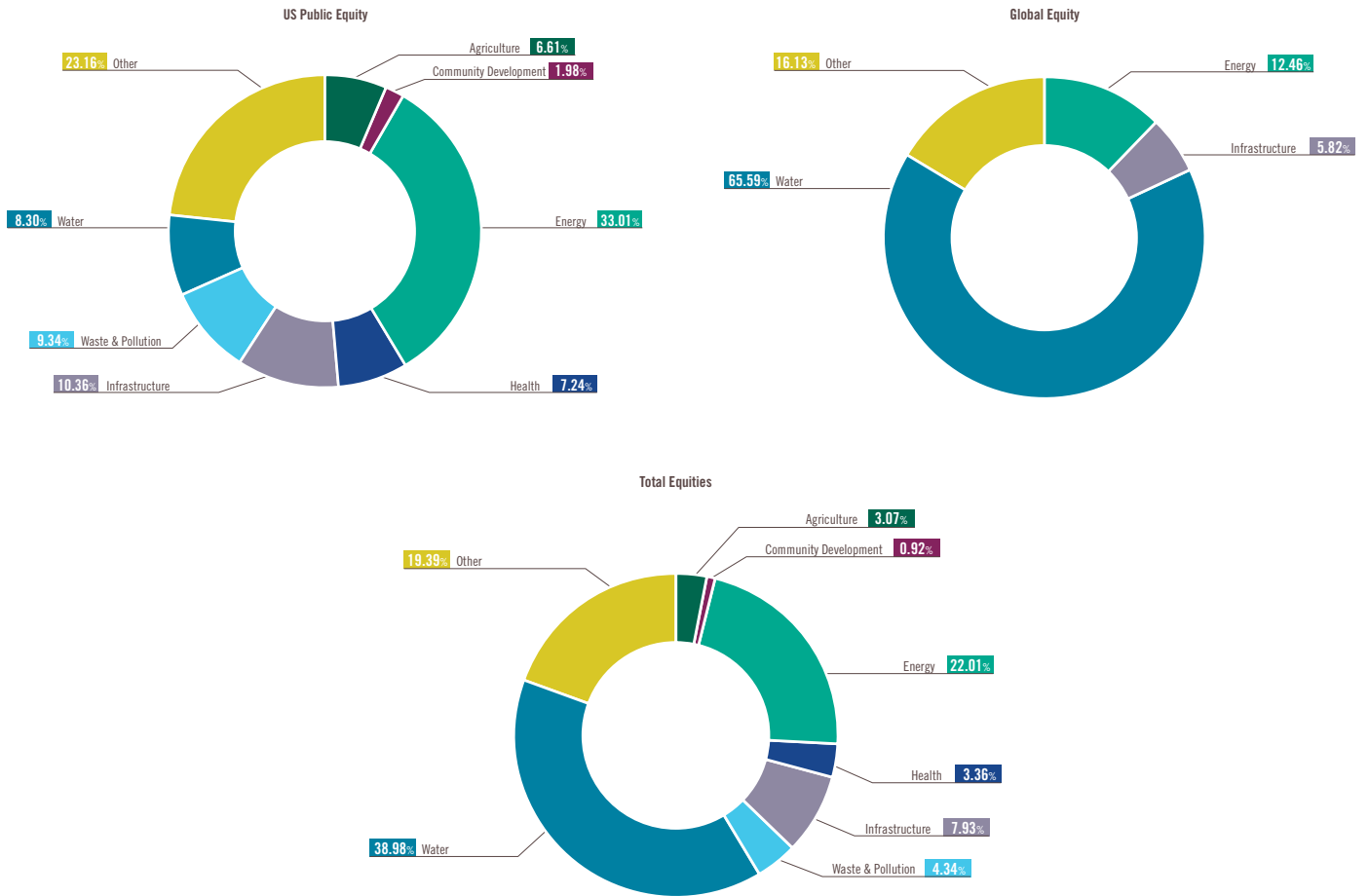
- Energy: Goods and services that increase energy efficiency at consumer and industrial levels; renewable energy technology.
- Waste and Pollution: Technologies and services that reduce solid waste; pollution abatement.
- Water: Water utilities that increase conservation and widen distribution; technologies in purification, efficiency and treatment; and infrastructure such as piping, valves, pumps and distribution technologies.
- Community Development: Goods and services

focusing on disadvantaged populations in the US and globally.

During 2014, Sonen added to its public equity exposure to clean and renewable energy in anticipation of global energy demand growth for such energy sources, more favorable environmental regulations and continuing price volatility of traditional energy.

As previously noted, Sonen's four 2014 strategies (US Public Equity, Global Equity, US Core Fixed Income and Global Fixed Income) included holdings that created impact in either of two specific impact categories: Sustainable exposures and Thematic exposures. The next section of this report offers a detailed analysis of the specific impact created by Sonen's Sustainable and Thematic holdings during 2014.

Figure 8: Thematic Impact Breakdown in Sonen's Public Equity Strategies





IMPACT INVESTING IN PUBLIC MARKETS

SONEN IMPACT EVALUATION: SUSTAINABLE INVESTING

Central to Sonen's Sustainable impact reporting methodology is the collection, aggregation and analysis of ESG data at the portfolio level. This aggregated data is compared to the appropriate benchmark to provide a means for rendering a measurement of the comparative sustainability performance of Sonen's investment strategies.

At Sonen, ESG data is used in a number of ways:

- As a measurement device for qualifying and, where possible, quantifying impact performance;
- As a tool to eliminate poorly performing securities, such as poor labor rights records or supply chain standards; and
- As a tool to compare relative impact performance at the portfolio level, both at a single point in time and over time, in order to reveal the extent to which underlying companies continue to improve ESG and impact performance.

Sonen anticipates that, as ESG performance data becomes more widely available and coverage increases across public securities, impact investors' ability to further align investment portfolios with social or environmental preferences will increase.

Sonen is also closely following the emerging body of evidence suggesting that companies with superior sustainability performance, as measured by various ESG indicators, can achieve better financial results, as expressed through traditional financial indicators such as Return on Equity, Return on Assets and a lower cost

of capital. While these studies are ongoing and continue to evolve in sophistication, the current studies suggest a compelling connection between sustainable performance and financial performance.

The following sections offer detailed information on each of the three dimensions of the ESG indicators used by Sonen to assess impact in Sustainable exposures.

Environment: Highlights on ESG Performance

For Sonen’s public equity strategies, we measure environmental performance in three areas that we believe are critical to the most pressing environmental sustainability issues:



1. **Climate change**, evaluated through carbon emissions;
2. **Environmental pollution**, measured by toxic emissions; and
3. **Rates of water use**, measured through tons of water withdrawal.

Sonen’s strategies showed significantly better environmental performance, as measured by selected KPIs, than that of the market benchmarks. For each selected KPI, Sonen’s strategies exhibit significantly reduced emissions and water resource use as compared to the benchmark, revealing the proactive policy choices of underlying securities, as well as selection biases that favor environmental performance.

For selected KPIs, Sonen evaluated total weighted amounts (emissions or water use) in order to illustrate the aggregate performance of Sonen’s strategies against market benchmarks. Sonen also reported average intensity (tons of emissions or m³ of water use/US\$ million in sales) for underlying securities in order to relay the average performance among underlying securities. Intensity metrics essentially convey a company’s environmental cost per unit of sales, creating another point of comparison between individual securities or entire portfolios. By either convention, Sonen’s portfolios significantly outperformed market benchmarks.

“Sonen anticipates that, as ESG performance data becomes more widely available and coverage increases across public securities, impact investors’ ability to further align investment portfolios with social or environmental preferences will increase.”

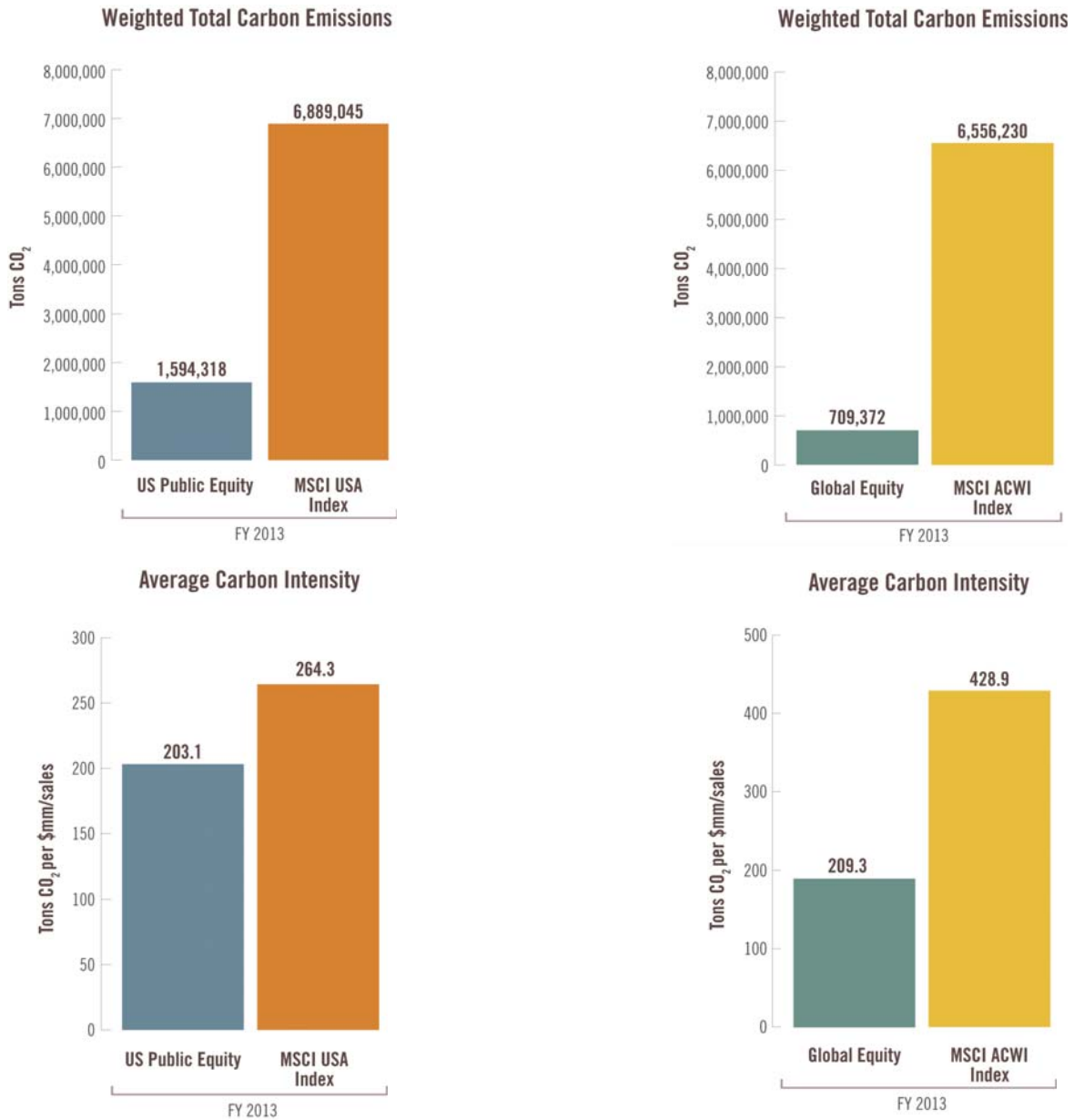
Sonen Strategies Key

-  Blue bars on the charts reflect Sonen investment strategies in US Equity.
-  Green bars on the charts reflect Sonen investment strategies in Global Equity.

SONEN IMPACT EVALUATION: SUSTAINABLE INVESTING

- Total weighted carbon emissions were 4.3x and 9.2x **better** than market benchmarks for US Public Equity and Global Equity strategies, respectively;
- Average portfolio carbon intensity was also 1.3x and 2.0x **better** than respective market benchmarks for US Public Equity and Global Equity.

Figure 9: Carbon Emissions

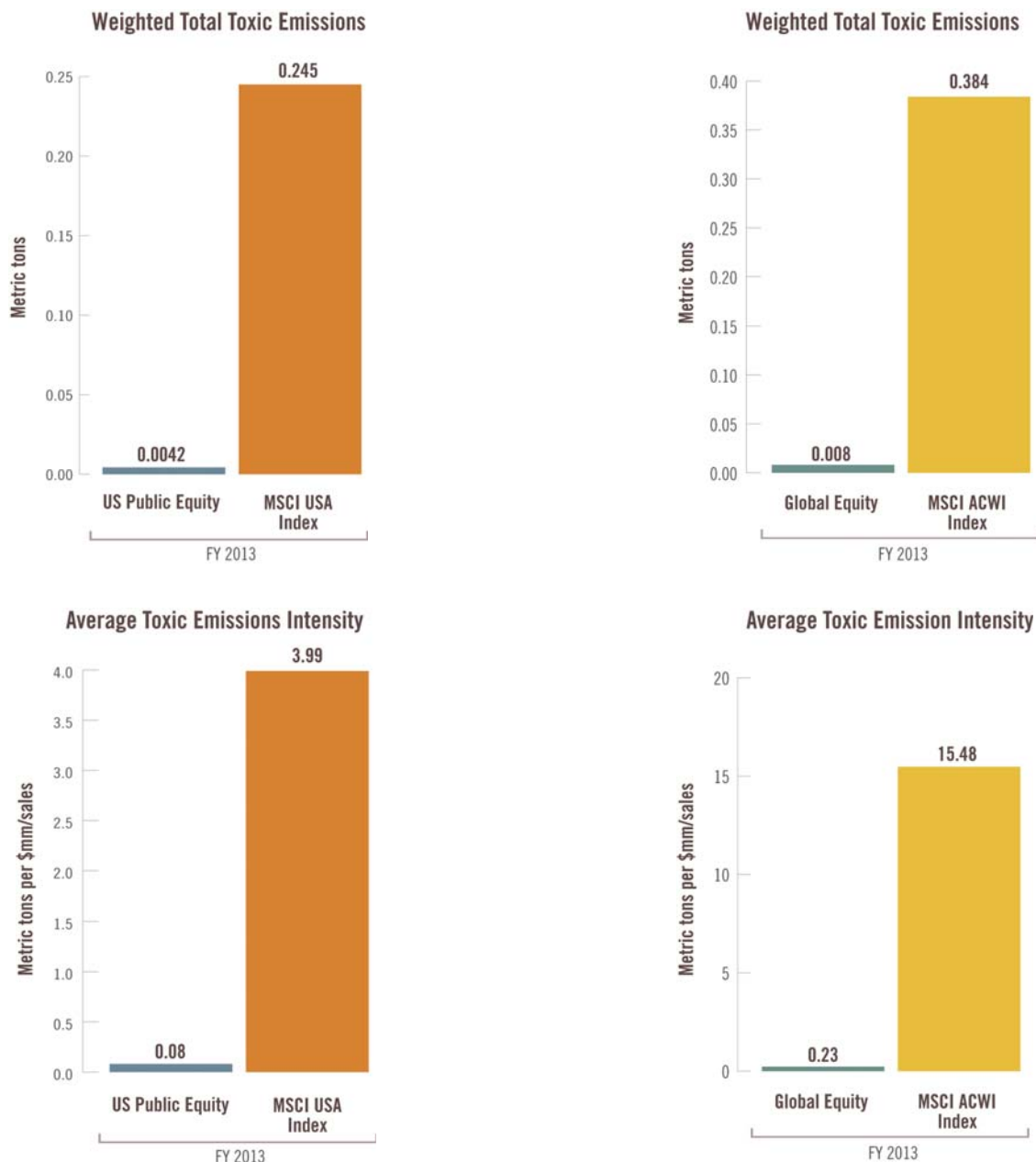


Source Data: MSCI ESG Research 12/31/2014. Measuring and comparing *intensity* (unit/\$mm in revenues) allows for a comparison between companies with significantly different scales of operations and/or market capitalizations. At the time of publishing, FY 2013 represents the latest available year of data from MSCI ESG Research.

Note: Not every company included in these indices reports on carbon emissions, toxic emissions, water withdrawal or other ESG data. Each of these charts reflects available data for the portfolio and its respective benchmark.

- Other environmental pollution, measured by various toxic emissions' weighted total and average intensity, was significantly **better** within Sonen's equity strategies relative to market benchmarks.
- For US Public Equity and Global Equity, total weighted toxic emissions were 58.3x and 48.0x **better**, respectively, than their market benchmarks. Average intensities of toxic emissions are 49.9x and 67.3x **better**, respectively, than their market benchmarks.

Figure 10: Toxic Emissions



Source Data: MSCI ESG Research 12/31/2014. Measuring and comparing *intensity* (unit/\$mm in revenues) allows for a comparison between companies with significantly different scales of operations and/or market capitalizations. At the time of publishing, FY 2013 represents the latest available year of data from MSCI ESG Research.

SONEN IMPACT EVALUATION: SUSTAINABLE INVESTING

- Total weighted water withdrawals were 151.2x and 106.2x better than market benchmarks for US Public Equity and Global Equity, respectively.
- Average water withdrawal intensities also reflect significantly lower amounts than respective benchmarks (254.7x for US Public Equity and 84.2x for Global Equity, respectively), largely as a result of Sonen’s avoidance of heavy water users, particularly in the utilities and power production sectors.

Figure 11: Water Use Withdrawals



Chart Source Data: MSCI ESG Research 12/31/2014. Measuring and comparing *intensity* (unit/\$mm in revenues) allows for a comparison between companies with significantly different scales of operations and/or market capitalizations. At the time of publishing, FY 2013 represents the latest available year of data from MSCI ESG Research.

Table 1 includes summaries of securities across asset classes that exhibited strong performance along Sonen’s environmental KPIs.

Table 1: Sample Environmental Performance Highlights from Sonen Equity and Fixed Income Strategies

| Security (Sector) | Asset Class | Environmental Performance Highlights (Carbon Emissions, Environmental Pollution, Water Use) |
|---|------------------------|--|
| CVS Health Corporation (Retail) | Public Equity (US) | <ul style="list-style-type: none"> › Target to reduce overall carbon intensity by 15% through 2018 (2010 baseline)⁷ › Updating distribution fleet for increased fuel efficiency; in-store lighting retrofits to reduce energy consumption › Target to use 100% FSC certified paper in marketing materials by end of 2015 ⁸ |
| Novartis (Pharmaceuticals) | Public Equity (Global) | <ul style="list-style-type: none"> › On target to reduce all production-related waste by 16% by 2016 (2010 baseline) › Targets to reduce Volatile Organic Compounds (VOCs) by 48% by 2016 (2008 baseline) › Life cycle assessments to determine the impact of its products throughout R&D, manufacturing and supply chain ⁹ |
| Sempra Energy (Utilities) | Fixed Income (US) | <ul style="list-style-type: none"> › Strong policies to reduce GHG emissions relative to industry peers; toxic emissions well below industry peers › Developed more than 1,380 MW of renewable power generation capacity in 2013; renewable energy generation will comprise 42% of total capacity by 2018 › Low water-use relative to utility peers; dry-cooling and reclaimed/recycled water used at energy generation plants in the US and Mexico ¹⁰ |
| Telstra Corporation (Telecommunications) | Fixed Income (Global) | <ul style="list-style-type: none"> › More than 500 separate energy and carbon efficiency projects have reduced total energy consumption by 2.2% since 2011 ¹¹ › In-store electronic collection program recycles 15 tons of phones and accessories annually ¹² › Reduced carbon emissions intensity by 30% during FY14 ¹³ › Target to further reduce carbon emissions intensity (tons/revenue) by 55% from 2014 levels |

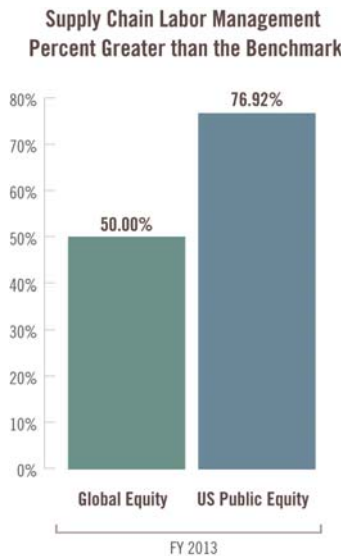
SONEN IMPACT EVALUATION: SUSTAINABLE INVESTING

Social: Highlights on ESG Performance

Social performance in Sonen’s investment portfolios is reported through three specific KPIs that we believe are representative of corporate best practices. These are the following:

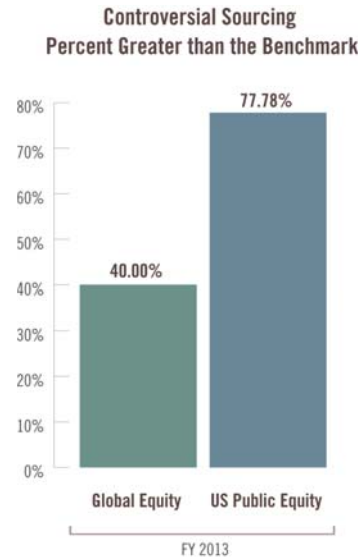
- 1. Supply chain labor management** evaluated the extent to which companies adhere to international standards on labor in their supply chains, including assuring no child labor use, ensuring fair labor practices and auditing supply chains by third parties for performance verification.

Figure 12: Supply Chain Labor Management



- 2. Controversial sourcing** reflected the degree to which companies rely on raw materials that originate from regions associated with human rights and labor abuses, or whose sourcing may actually fuel such conflicts. This issue was of particular importance for copper, tin and tungsten, which often originated in regions with poor human rights records.

Figure 13: Controversial Sourcing



- 3. Health and safety** monitored and reported the degree to which underlying companies ensure worker safety through best practices in workplace safety. This performance indicator was particularly relevant for companies and industries operating in geographies far removed from corporate headquarters and where labor standards may be less stringent.

Figure 14: Health & Safety

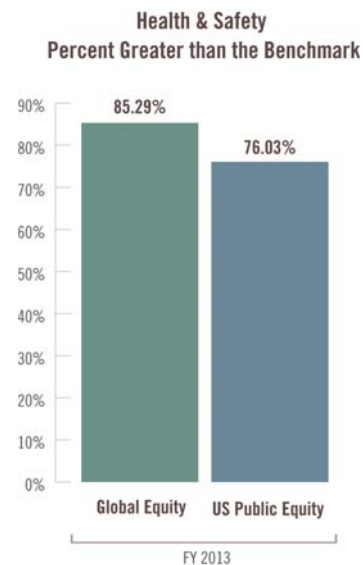


Chart Source Data: MSCI ESG Research 12/31/2014. At the time of publishing, FY 2013 represents the latest available year of data from MSCI ESG Research.

Performance data on Sonen’s selected KPIs was reported by the percentage of underlying securities whose Social performance score was above the average score for the respective market benchmark. Sonen securities met or exceeded the average benchmark performance for all three Social KPIs in 2014.

The single exception was the Controversial Sourcing KPI for Sonen Global Equity. Though this KPI did not outperform the benchmark in 2014, the average score for Global Equity demonstrated a significant improvement from the previous year: 40% in 2014 vs. 25% in 2013.

Sample relevant Social performance data is highlighted in Table 2.

Table 2: Sample Social Performance Highlights from Sonen Equity and Fixed Income Strategies

| Security (Sector) | Asset Class | Social Performance Highlights Supply Chain, Controversial Sourcing, Health and Safety |
|---|------------------------|--|
| SanDisk (Technology) | Public Equity (US) | <ul style="list-style-type: none"> › Recent signatory to Electronics Industry Citizenship Coalition (EICC) and Global e-Sustainability Working Group to audit and monitor conflict minerals in supply chain and supply chain labor standards ¹⁴ › Ranked number three amongst electronics companies in progress to eliminate conflict minerals from supply chain ¹⁵ › Investors looking to SanDisk to increase transparency on corrective actions to be taken amongst suppliers |
| Brambles Limited (Supply Chain Logistics) | Public Equity (Global) | <ul style="list-style-type: none"> › Improved injury frequency rate by nearly 20% from previous year › External audits of safety procedures across business units; newly introduced safety standards in 2014 to reduce injuries › 94% of wood required for company’s main product is certified from sustainable sources; 2015 target is 100% ¹⁶ |
| Motorola (Telecommunications and Hardware) | Fixed Income (US) | <ul style="list-style-type: none"> › Industry leading Supplier Code of Conduct provides detailed standards on labor, wages and health & safety; regular audits and detailed public disclosure on audit findings ¹⁷ › Industry leader in traceability standards and practices for conflict minerals; target to have all suppliers become EICC signatories in 2015 ¹⁸ › Suppliers unable to correct non-compliance are terminated ¹⁹ |
| Rogers Communications (Telecommunications) | Fixed Income (Global) | <ul style="list-style-type: none"> › Health and Safety (H&S) programs are monitored monthly by 66 management-level committees; on-site verification of contractors’ H&S practices ²⁰ › Internal employee wellness program offering health assessments, basic healthcare and fitness challenges ²¹ › Stock-based compensation offered to all employees; unlimited tuition reimbursement program ²² |

SONEN IMPACT EVALUATION: SUSTAINABLE INVESTING

While performance data measuring Social KPIs was more limited than data measuring Environmental KPIs (as far as the number of companies reporting and the availability of data), Sonen reported on these Social dimensions for two reasons: first, to continue building the expectation that such scrutiny of corporate performance standards will increase over time; and second, to illustrate that underlying securities in Sonen’s equity and fixed income portfolios do indeed exemplify the conscious choice to direct resources to companies that typify best practices.

Governance: Highlights on ESG Performance

Sonen monitored corporate governance through two KPIs that we believe all corporations should reflect:

- 1. Board composition and diversity**, specifically the number of women comprising the board; and
- 2. Ethical performance** relating to corporate malfeasance, such as insider trading, litigation or public controversies that may compromise the best ethical standards.

Sonen studied the growing body of research suggesting that corporations with a greater percentage of women serving on boards of directors have achieved improved financial performance and that, as the percentage of women on corporate boards increase, the performance improved even more.²³ Sonen also found that governance practices that garnered higher ratings on ethical performance standards also appeared to result in improved financial performance.

Therefore, Sonen believes that pursuing greater board diversity and investing in companies that focus on minimizing ethical compromises is reflective of the intentions and attitudes of our clients and impact investors generally.

Figure 15: Representation of Women on Corporate Boards

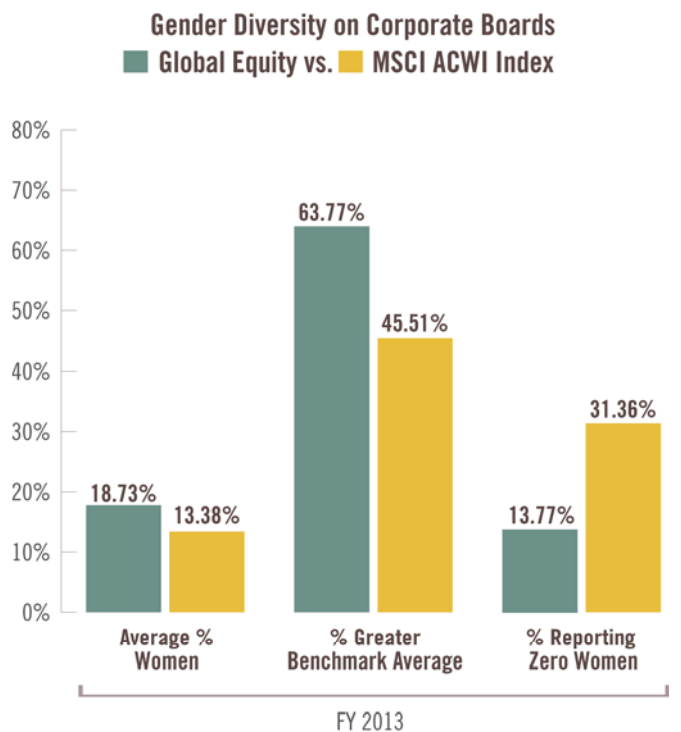
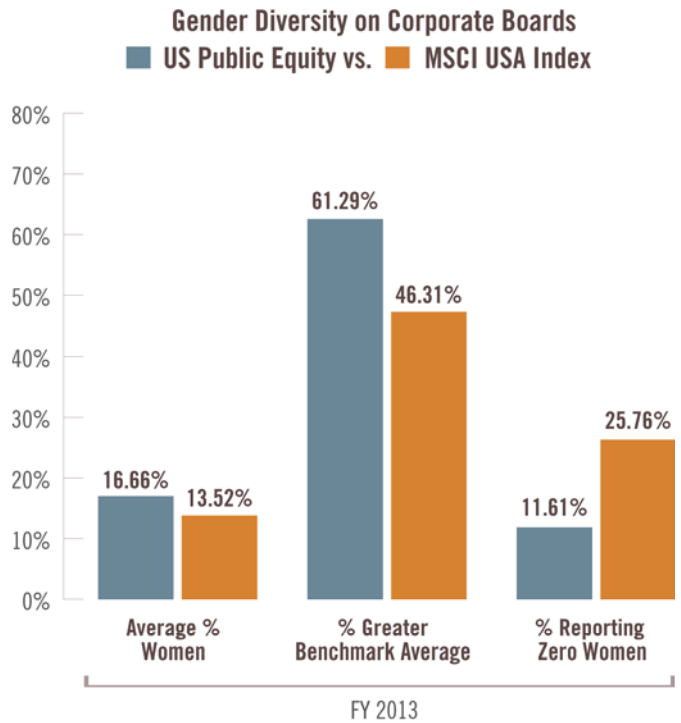


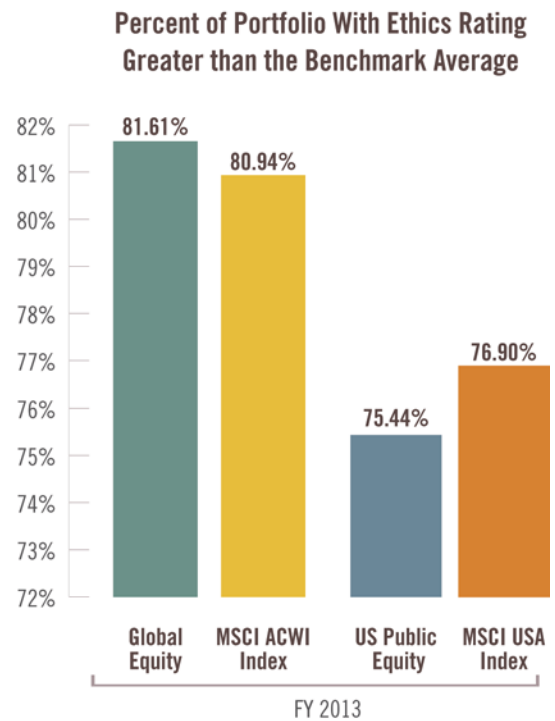
Figure 15 illustrates Sonen’s public equity strategies and market benchmarks along three dimensions:

1. The average of the percentage of women serving on the boards of underlying portfolio companies,
2. Percentage of the underlying portfolio companies with women serving on their boards that exceed the benchmark average; and
3. The percent of companies reporting zero women on their corporate governance boards.

In 2014, Sonen’s public equity strategies (both US and Global) benefited from higher rates of female representation on corporate boards, measured in terms of average gender proportions as well as across companies. For US Public Equity, average female representation on boards was 23% greater than that of the benchmark, while it was 40% greater for Global Equity. Both strategies also revealed significantly fewer companies reporting zero women on their boards than their respective benchmarks.

Sonen’s second Governance KPI relates to average corporate performance for Business Ethics and Fraud relative to average benchmark performance. Governance scores reflect exposure to or involvement in public controversies, such as insider trading or ongoing litigation, that may reflect poor ethical judgment or leadership. For both of Sonen’s 2014 public equity strategies, more than 75% of underlying securities reported Governance scores that exceeded respective average benchmark scores.

Figure 16: Ethics Performance Ratings for Sonen vs. Benchmark





IMPACT INVESTING IN PUBLIC MARKETS

SONEN IMPACT EVALUATION: THEMATIC INVESTING

Thematic impact investing focuses on specific social and environmental opportunities that arise from large-scale global social and economic trends, such as climate change, resource consumption and poverty alleviation.

Examining such large-scale trends reveals not only attractive investment opportunities, but also ways in which impact investors can further align resources with real solutions and the creation of positive impact. Table 3 highlights various social and environment challenges that resulted from population growth, increasing urbanization, climate change and resource scarcity.

The following tables highlight the impact opportunity

through specific public equity and fixed income exposures in water, energy, resource use/waste and community development. Each of these Thematic exposures helped to create positive solutions in response to these global challenges.

Table 3: Macro Trends Reveal Impact Investment Opportunities for Investors

| Macro Trends | The Challenge | The Impact Opportunity |
|-------------------------------|---|--|
| Population Growth | Global population will increase by 41% through 2050, to 8.9 billion ²⁴ | <ul style="list-style-type: none"> › Create modern infrastructure and basic services › Provide housing, jobs, public health services › Provision of health and education › Improve sustainability performance of the built environment and power generation › Improve waste management, recycling and re-use › Improve resource efficiency, including land and water › Manage agricultural land sustainably › Focus on water efficiency and conservation |
| | The 49 least developed countries are projected to double in size by 2050. ²⁵ 90% of the population increase will be in Asia and Africa ²⁶ | |
| | Developing economies have the largest growth potential for new consumers with rapidly expanding middle classes ²⁷ | |
| | Global food production must increase by 70% by 2050 to meet rising demand ²⁸ | |
| Increased Urbanization | Cities account for 76% of total energy consumption and 76% of all carbon emissions ²⁹ | <ul style="list-style-type: none"> › Cities benefit from economies of scale: water, housing, waste management, energy use and transportation › Increase energy efficiency and reduce energy consumption in the built environment › Expand low-carbon, ecologically sensible infrastructure › Pollution abatement; water treatment › Expand availability of sustainable, affordable workforce housing |
| | Cities projected to grow most rapidly are those with already stressed or limited infrastructure | |
| Climate Change | Power generation is the leading cause of air pollution and the largest source of GHG emissions ³⁰ | <ul style="list-style-type: none"> › Develop renewable energy infrastructure and distribution › Expand lower-carbon solutions across domestic, municipal and industrial energy consumption › Focus on disaster resilience › Restore ecosystems and ecosystem services |
| | Humans will feel the impacts of climate change most readily through water (availability, disasters and changing weather) | |
| Resource Use and Waste | The Earth requires 18 months to regenerate what humans use in 12 months ³¹ | <ul style="list-style-type: none"> › Develop technology for increased resource efficiency and energy production › Create infrastructure that uses fewer natural resources and causes less pollution › Focus on resource efficiency: waste management; waste-to-energy; waste reduction › Technological innovation for re-use, recycling and re-purposing material |
| | 49% of organic waste ends up in landfills, creating the third-largest source of methane emissions in the US ³² | |
| | Only 25% of municipal solid waste is recycled, projected to double by 2025. ³³ Nearly 50% of landfill waste is recyclable in the US. Germany sends no waste to landfills ³⁴ | |

Exploring Key Underlying Themes

Water

As noted in Table 3 (Macro Trends), water, one of the world's most precious and limited resources, is affected by every observable global trend, including population growth, urbanization, growing energy needs and, most of all, climate change. Sonen's Thematic water investing strategies strives to accomplish the following goals:

1. **Improved** water infrastructure and distribution through pipes, valves and large-scale projects that enhance water delivery;
2. **Solutions** for increasing water use efficiency in agriculture, municipal and industrial applications;
3. **Innovative** technologies for water treatment and purification; and
4. **Increased** water distribution and sanitation within poorer geographies or communities that lack access to water altogether.

Table 4: Thematic Impact: Water

| Security (Sector) | Asset Class | Thematic Impact |
|---|------------------------|--|
| Trimble Navigation (Electronics) | Public Equity (US) | <ul style="list-style-type: none"> › Agricultural technologies that increase water efficiency, increase yields and productivity and reduce farmer costs³⁵ › Technologies to monitor and adjust irrigation plans for highly targeted and efficient water distribution³⁶ › High efficiency pivot systems; digital rainfall monitoring systems; water-harvesting drainage and runoff systems³⁷ |
| United Utilities (Water Utilities) | Public Equity (Global) | <ul style="list-style-type: none"> › Provides water and wastewater services to nearly seven million customers in NW England › Reduced water leaks by 50% since 1992³⁸ and converts domestic sewage sludge into enough energy to power 25,000 homes every year³⁹ › Industry-leading biodiversity management programs that provide land and habitat preservation that result in improved water quality, farmer viability and climate stabilization⁴⁰ |
| Eaton Corp. (Industrials, Electrical Equipment) | Fixed Income (US) | <ul style="list-style-type: none"> › Industrial water and wastewater treatment technology; water and energy efficiency savings through real-time equipment monitoring and detection › Eaton’s Ampgard pump monitoring technology offers significant water and cost savings for industrial customers (example: West View Water Authority in PA realized \$30k in monthly savings through the use of this technology⁴¹) › Flood monitoring during times of peak flows to protect municipal sewers⁴² |
| Latin American Water and Sanitation Initiative (Inter-American Development Bank) (Supranational) | Fixed Income (Global) | <ul style="list-style-type: none"> › Founded in 2007 to improve water and sanitation services in Latin America and the Caribbean › Investment financing and technical assistance to benefit 50,000 people; 3,000 rural communities; 20 priority micro-watersheds; and 90 water and sanitation operators, giving priority to the poorest communities largely in the form of water and sewage treatment⁴³ |

SONEN IMPACT EVALUATION: THEMATIC INVESTING

Energy

Much like water, the planet's energy needs were essential and inseparable from the influence of population growth, climate change and changing patterns of consumption. Sonen's energy-related Thematic investments focus both on increasing energy efficiency gains across all levels (from industry to consumer), and building the industry of renewable energy at large with the overarching objective of helping to facilitate an eventual transition to a low-carbon economy.

Sonen's Thematic energy investing strategies strive to attain the following goals:

- 1. Increased** energy efficiency across all energy consumers through technological innovation and easily scalable solutions;
- 2. Expanded** availability of renewable energy through technological innovation or physical infrastructure and distribution; and
- 3. Development** of renewable energy sources and distribution.

Table 5: Thematic Impact: Energy

| Security (Sector) | Asset Class | Thematic Impact |
|---|------------------------|---|
| Power Integrations (Semiconductors) | Public Equity (US) | <ul style="list-style-type: none"> › 14 billion online electronic devices globally consume more electricity than Canada each year and waste \$80 billion/year due to inefficient technology⁴⁴ › Power Integrations’ EcoSmart™ technology reduces energy waste from inefficient power supplies in consumer electronic devices, saving consumers worldwide billions of dollars’ worth of energy consumption worldwide since 1998⁴⁵ › According to its own calculations, total energy savings equate to nearly 30 billion kilowatt-hours (kWh), equivalent the annual emissions of three million automobiles⁴⁶ |
| Ormat Technologies (Utilities; Renewable Technologies) | Public Equity (Global) | <ul style="list-style-type: none"> › The world’s only vertically integrated geothermal company, supplying over 1,850 megawatts (MW) of renewable energy to power plants worldwide.⁴⁷ Geothermal energy requires no fuel and emits no gas or liquid emissions, nor any toxic byproducts. › Pioneered ‘Recovered Energy Generation’ power plants – converting waste heat from industrial processes into electricity that can either be used or sold back to the energy grid to reduce energy costs and stress on overburdened grids⁴⁸ |
| NextEra Energy (Electric Utilities) | Fixed Income (US) | <ul style="list-style-type: none"> › Largest solar and wind renewable energy generator in North America. › NextEra’s wind generation activities avoided 25.5 million tons of CO₂ emissions in 2013⁴⁹ › Operates 900 MW of solar power, enough to meet the energy needs of over 575,000 homes at peak production⁵⁰ |
| Nordic Investment Bank (Financials) | Fixed Income (Global) | <ul style="list-style-type: none"> › International financial institution that finances projects geared at improving competitiveness and environmental sustainability within Nordic and Baltic countries › Financing energy and transportation infrastructure, as well as pollution prevention and treatment all subject to stringent Norwegian environmental standards⁵¹ › Financed the Arctic Blaiken 225 MW wind farm, one of Europe’s largest onshore wind farms⁵² |

SONEN IMPACT EVALUATION: THEMATIC INVESTING

Resource Efficiency and Waste

Among the consequences of the planet's increasing population, particularly its growing middle class, are increased consumption, resource use and related waste streams, as well as the necessity to produce more energy to support human civilization.

These consequences exacerbate humans' contribution to climate change. Sonen's Thematic focus on resource efficiency and waste targets solutions that address these consequences through the following:

1. **Expanding** the efficiency of modern waste management, including recycling, re-use and re-purposing of materials;
2. **Investing** in companies that provide appropriate disposal of hazardous industrial materials; and
3. **Optimizing** waste management for cost savings and environmental benefits, particularly energy production that reduce humans' contribution to climate change.

Table 6: Thematic Impact: Resource Efficiency and Waste

| Security (Sector) | Asset Class | Thematic Impact |
|---|------------------------|--|
| Stericycle (Industrials; Waste Management) | Public Equity (US) | <ul style="list-style-type: none"> › Hazardous and non-hazardous waste management. Provides safe, environmentally responsible disposal solutions for regulated hazardous waste (e.g., hospitals) › Programs for waste recovery; direct re-use; and combustion for energy recovery among waste streams collected⁵³ › Hospital sharps recycling program estimated to have kept more than 133 million sharps containers out of landfills⁵⁴ |
| Ameresco (Energy; Renewable Energy Services) | Public Equity (Global) | <ul style="list-style-type: none"> › Utility-scale biomass power generation plants that reduce energy consumption, water use and harmful emissions › Biomass energy generation facilities powered by forest debris, agricultural waste or scrap lumber and can replace aging coal-fired power generation facilities. › Designed and implemented the nation’s largest renewable energy savings performance contract for the Department of Energy’s Savannah Biomass Cogeneration Facility, saving \$34.3 million in costs and 100,000 tons of GHG emissions annually⁵⁵ |
| Waste Management (Industrials; Environmental Services) | Fixed Income (US) | <ul style="list-style-type: none"> › North America’s largest residential recycler, recycling almost 14 million tons of material and over two million tons of organic material converted into energy, mulch and compost annually⁵⁶ › Invests in new technologies such as SpecFuel, a clean-burning alternative fuel formulated using post-recycled paper and plastics extracted from municipal waste, further diverting landfill material⁵⁷ › Developed composting program with Whole Foods Market, diverting 80% of waste to compost in the first year⁵⁸ |
| World Bank Green Bonds (Supranational) | Fixed Income (Global) | <ul style="list-style-type: none"> › Transitioned 2 million rural households in Bangladesh that lacked access to electricity and relied on burning biomass and low-efficiency cookstoves to renewable energy solutions⁵⁹ › Provided 1 million improved cookstoves, replaced over 7 million incandescent lamps with energy efficient Compact Fluorescent Lamps (CFLs), and installed 2 million solar home systems, providing households with cost savings as well as economic and health benefits⁶⁰ |

SONEN IMPACT EVALUATION: THEMATIC INVESTING

Community Development and Poverty Alleviation

Sonen's investment strategies strive to provide investors with social as well as environmental impact. Our emphasis on social impact is reflected in Sonen's focus on goods and services that can improve various aspects of community development and poverty alleviation, including health and well-being, access to financial services and information and infrastructure and utilities that provide critical services such as water and sanitation.

Sonen's Thematic fixed income strategies also provide access to international green bonds, whose proceeds are used to adapt to and mitigate the effects of climate change, and whose focus is in lower-income geographies where the effects of climate change are the most acute. Green bonds include funding for projects focused on disaster resilience, watershed protection, natural resources management and basic livelihoods. Thematic fixed income securities in the US focus on providing project financing, small business financing and community facilities for low- and moderate-income regions of the country.

Table 7: Thematic Impact: Community Development and Poverty Alleviation

| Security (Sector) | Asset Class | Thematic Impact |
|---|------------------------|---|
| Advisory Board (Industrials; Business Support Services) | Public Equity (US) | <ul style="list-style-type: none"> › Strategic guidance and performance improvement solutions to the health-care and higher education sectors through technology, research and consulting services › Founding member of the BUILD Health Challenge, alongside four private foundations, to identify the social determinants of long-term health, improve community health and improve health equity⁶¹ › Targeted outcomes include measurable improvements in high quality patient care; improved patient satisfaction; talent development; and improved financial performance › Over 94% of US clients are included in US News & World Report’s 2013 Best Hospitals and Best Children’s Hospitals⁶² |
| Journal Communications (Consumer Cyclical; Broadcasting) | Public Equity (Global) | <ul style="list-style-type: none"> › Longtime journalism outlet (founded in 1882) with a reach of broadcast and publishing stations encompassing 11 US states › Notable investigations have included an investigation into newborn testing delays that prompted reforms that hold potential to save infant lives⁶³ as well as a failed ATF sting that allowed armed felons to possess stolen weapons uncovered by Milwaukee Journal Sentinel reporters that prompted a Department of Justice investigation as well as congressional hearings on the national use of these tactics⁶⁴ |
| Edgewood Terrace (Project Loan) | Fixed Income (US) | <ul style="list-style-type: none"> › 258-unit high-rise building mixed income property in Washington DC subsidized by the US Department of Housing and Urban Development⁶⁵ › Part of the Community Preservation and Development Corporation’s community building model, which seeks to create community impact through efforts such as access to job placement and training, financial literacy workshops, technology access, supporting volunteerism and various education initiatives⁶⁶ |
| Inter-American Development Bank (Supranational) | Fixed Income (Global) | <ul style="list-style-type: none"> › Invests in strategic areas for gender equality and women’s empowerment such as encouraging access to financial services, training and political involvement › Approved an Operational Policy on Gender Equality in Development, committing to undertake both proactive (incorporating gender issues into investment areas) and preventive (reviewing investments for any adverse impacts or gender related exclusions) actions⁶⁷ › Provided a \$45 million loan to Mibanco in Peru for expanded lending to female micro-entrepreneurs⁶⁸ |



IMPACT INVESTING IN PUBLIC MARKETS

SHAREHOLDER ADVOCACY

Shareholder advocacy and engagement are important tools for impact investors to influence corporate policy toward more sustainable business practices and corporate transparency. In response to growing investor interest in corporate transparency on sustainability and ESG issues, companies more than ever have begun to issue sustainability reports or disclose corporate social responsibility performance.⁶⁹

As such data becomes increasingly available, we can better verify performance, further align portfolios with sustainability objectives and exert pressure for improved corporate policy through shareholder action.

Sonen's Participation in Advocacy and Engagement

As part of our growing engagement and advocacy work, in 2014 Sonen joined a number of industry working

groups and initiatives that strive to provide increasing transparency into corporate policies and practices as they relate to sustainability. These advocacy activities are summarized in Table 8 on the next page.

Sonen's advocacy and engagement efforts are intended to improve the sustainability performance of the companies in which our strategies invest. Given the incremental nature of such corporate policy changes, the desired outcomes and results of these engagement

Table 8: Sonen’s Investor and Shareholder Network Activities in 2014

| Advocacy Activity | Summary of Activity |
|--|--|
| 2014 Network Affiliations | › Industry-building networks including Sustainability Industry Classification System (SICS), Investor Network on Climate Risk (INCR), Sustainable Investment Research Analyst Network (SIRAN), US Sustainable Investment Forum (USSIF) |
| Impact of Equity Engagement (IE2) | › Ongoing research and monitoring to build the industry’s understanding of the total, measurable impact of various shareholder engagement strategies |
| Climate Disclosure Standards Board (CDSB) | › Develop a common framework for climate-related disclosure in mainstream reports |
| EPA Public Health Disclosure - Toxic Release Inventory (TRI) data | › Petitioned the EPA for the continuation of an inventory that captures companies’ use of Risk-Screening Environmental Indicators (RSEI), tracing the human health impact of over 600 chemicals |
| United Nations Environment Programme (UNEP) / World Resources Institute (WRI) Signatory | › Extend the GHG Protocol to include guidance for “financed emissions,” effectively standardizing carbon accounting for banks and investment products |
| Global Investor Statement on Climate Change | › Carbon reductions through support for the Global Investor Statement on Climate Change |
| Financing Climate Change: Carbon Risk in the Banking Sector | › Signatory of a letter to 50 largest underwriters of carbon intensive industries, aiming to address and make explicit the embedded climate-related risks in the financial sector |
| International Organization of Securities Commission (IOSCO) | › Request that IOSCO support the disclosure of material and high-quality ESG information in the global marketplace through its oversight of regulators, stock exchanges and other related parties |

activities are necessarily long-term in nature. However, over time, we believe that corporate changes as a result of these actions can occur at a scale that generates significant impact.

As one example, consider the use of palm oil in products meant for human consumption. Palm oil’s increasingly acknowledged connection with deforestation,

biodiversity loss, climate change and human rights violations has led to growing consumer and shareholder concern. As a result of specific shareholder resolutions, in 2014 three consumer goods giants responded to shareholder concerns to take decisive steps to begin sourcing sustainable palm oil. The shareholder resolutions and outcomes are summarized below in Table 9.

SHAREHOLDER ADVOCACY

Table 9: Sonen's Shareholder Resolution Activities

| Company | Shareholder Resolution Summary and Outcomes |
|------------------------|--|
| Kellogg Company | <ul style="list-style-type: none"> › Palm Oil Policy Implementation Report: In February 2014, Kellogg Company announced a global commitment to work with palm oil suppliers to source fully traceable palm oil throughout Kellogg's entire supply chain, produced in a manner that is environmentally responsible, socially beneficial and economically viable⁷⁰ |
| PepsiCo, Inc. | <ul style="list-style-type: none"> › Report on deforestation impacts in supply chain: In May 2014, PepsiCo strengthened its commitment to avoiding irresponsible deforestation by taking additional measures to ensure that, by 2016, all of PepsiCo's suppliers will be sourced exclusively through suppliers who are members of the Roundtable for Sustainable Palm Oil (RSPO) with all materials confirmed to have originated from responsible and sustainable sources⁷¹ |
| Safeway Inc. | <ul style="list-style-type: none"> › Adopt a comprehensive sustainable palm oil sourcing policy: As of March 2014, Safeway has announced that it is working towards sourcing 100% responsibly produced palm oil, stating its commitment to ensuring that the palm oil products it uses come from verified responsible sources supported by delivery through fully traceable supply chains.⁷² |

Proxy Voting

During 2014, public markets investors filed over 400 social and environmental shareholder proposals, the largest number of such proposals ever recorded.⁷³ During this period, companies in Sonen’s holdings were subject to 115 proxy votes from various shareholder resolutions.

The most common shareholder resolutions within Sonen’s public equity investment strategies included:

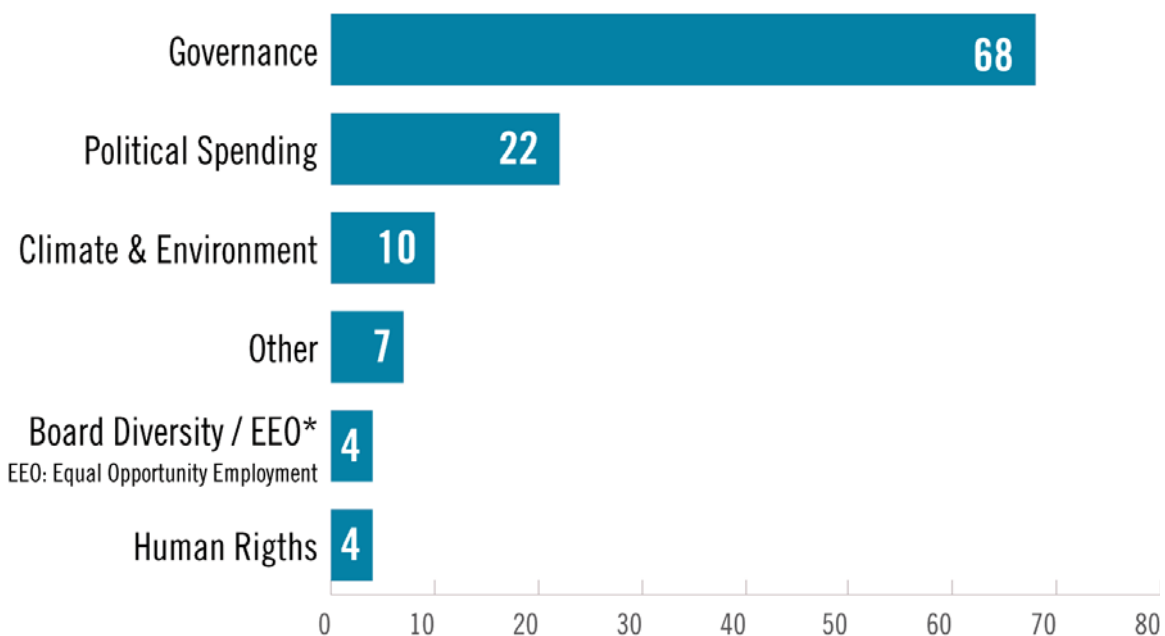
1. **Governance:** Issues related to corporate transparency, disclosure practices and CEO compensation;
2. **Political Spending:** Requesting greater visibility into how corporate resources are spent on lobbying and political campaigns;
3. **Climate and Environment:** Requesting greater disclosure on GHG emissions or sustainability per-

formance; reducing packaging or electronic waste; and implementing sustainability policies among suppliers;

4. **Board Diversity/Equal Employment Opportunity (EEO):** Calls for greater diversity in corporate boardrooms and codifying non-discrimination policies;
5. **Human Rights:** Calling for increased disclosure on human rights policies and conditions across company supply chains and operations; and
6. **Other:** Data security and privacy.

Throughout 2014, shareholder pressure continued to act as an effective tool for achieving changes in corporate policy and/or disclosures. The US Sustainable Investment Forum reports that shareholder resolutions are increasingly eliciting proactive responses from companies⁷⁴, exhibiting their preference for accommodating shareholder requests instead of defending unpopular corporate practices over multiple shareholder meetings.

2014 Breakdown of Sonen Proxy Voting by Topic Area
Total Proxy Votes = 115



“ Shareholder resolutions are increasingly eliciting proactive responses from companies, exhibiting their preference for accommodating shareholder requests instead of defending unpopular corporate practices. ”

In at least 21 instances amongst Sonen’s portfolio companies in 2014, proposed shareholder resolutions resulted in negotiated agreements for companies to address the issue in question. Table 10 below highlights a sampling of such outcomes.

Table 10: Sonen’s Shareholder Advocacy Activities

| Advocacy Activity | Sector | Summary of Activity |
|---------------------------------------|--------------------|--|
| BorgWarner Inc. | Consumer Goods | Quantitative goals for reducing GHG emissions |
| CME Group Inc. | Financial Services | Sustainability reporting and ESG disclosure |
| Gentex Corporation | Manufacturing | Sustainability reporting and ESG disclosure; GHG emissions goals |
| Lowe’s Companies Inc. | Retail | Targets for reducing GHG emissions |
| Mead Johnson Nutrition Company | Food and Beverage | Adopt a comprehensive sustainable palm oil sourcing policy |
| Mondelez International, Inc. | Food and Beverage | Sustainable forestry reporting |
| Safeway Inc. | Food and Beverage | Adopt a comprehensive sustainable palm oil sourcing policy |
| Valmont Industries, Inc. | Manufacturing | Report on energy efficiency strategies; GHG emissions goals |

Note: In all cases, the shareholder resolution was withdrawn after agreement with management.

Direct Engagement and Co-Filing Resolutions

As a critical lever for advancing impact and sustainability within our public equity strategies, Sonen strengthened its shareholder engagement and advocacy efforts in 2014. This included a comprehensive review of our underlying managers' proxy voting guidelines and their

voting records. We also engaged more actively with them to better understand their positions on specific shareholder resolutions.

In 2014, Sonen also increased its shareholder engagement activities by co-filing shareholder resolutions spanning specific social and environmental issues. These shareholder resolutions are ongoing, and summarized in Table 11 below.

Table 11: Shareholder Resolutions Co-filed by Sonen in 2014

| Topic Area | Company Name | Details of Resolution |
|-------------------------|--------------------------|---|
| Climate and Environment | Amazon | <u>Corporate Sustainability Reporting</u> Request to issue a sustainability report describing the company's environmental, social and governance (ESG) risks and opportunities, including greenhouse gas (GHG) emissions reduction targets and goals. Amazon lags industry peers in sustainability disclosure, including supply chain and workforce |
| | HD Supply | <u>Emissions Disclosure</u> Request to adopt quantitative company-wide goals for reducing GHG emissions from operations and products and report on its plans to achieve these goals by September 2015. Recommendation to integrate renewable energy procurement to help meet emissions reductions goals |
| Governance | Google | <u>One Vote, One Share</u> Proposal of initiating and adopting a recapitalization plan for all outstanding stock to have one vote per share. In the current, dual-class voting structure, each share of Class A common stock has one vote and each share of Class B common stock has 10 votes, resulting in 55% of voting power being held by the company's two founders |
| Political Spending | Google | <u>Political Spending and Lobbying Disclosure</u> Expand corporate disclosure on lobbying in a continuation of an earlier successful resolution that requested that Google discontinue its membership with the American Legislative Exchange Council (ALEC), a controversial legislative lobbying group |
| | Dana-her | <u>Political Spending and Lobbying Disclosure</u> Request to prepare regular disclosures of the company's policies and procedures for making political contributions and expenditures with corporate funds, including the board's role, and including monetary and non-monetary political contributions or expenditures |
| | Thermo Fisher Scientific | <u>Political Contributions Report</u> Request to prepare a semiannual report disclosing the company's political contribution policies, as well as any monetary and non-monetary contributions and expenditures |

IMPACT INVESTING IN PUBLIC MARKETS



LOOKING AHEAD

Sonen's second annual impact report is intended to illustrate and quantify how impact has been created across our four 2014 impact strategies: US Core Fixed Income, Global Fixed Income, US Public Equity and Global Equity. We conveyed impact through both quantitative data related ESG impact performance, and qualitative data illustrating how underlying Thematic investment approaches meaningfully address major social and environmental challenges.

Sonen's investment performance in 2014 reflected the firm's focus on creating a portfolio of holdings chosen to create definitive, measurable impact. In 2014, Sonen's Global Equity and Global Fixed Income strategies generated returns of 4.62% and 2.46% (net of all fees), respectively, and Sonen's US Public Equity and US Core Fixed Income strategies generated returns of 10.20% and 3.86% (net of all fees), respectively.

In addition to market gains generally comparable to

traditional benchmarks, Sonen's portfolios demonstrated significant impact in 2014. Environmental, Social and Governance data reveal that Sonen's collection of public markets securities materially outperformed respective market benchmarks on critical environmental Key Performance Indicators, including carbon and toxic emissions and water use. Social KPIs, such as managing supply chains and assuring worker health and safety, materially outperformed market benchmarks as well. Sonen's collection of public markets securities also re-

vealed significantly higher gender diversity in corporate boardrooms as measured by Governance KPIs.

Sonen's 2014 Thematic exposures actively addressed urgent social and environmental challenges related to population growth, urbanization and resource scarcity. This was accomplished through exposure to water efficiency, waste management, energy efficiency and community development solutions targeting some of the world's most disadvantaged populations.

Lastly, Sonen's expanding activities related to shareholder advocacy in 2014 helped to actively direct companies to more sustainable management practices and supported increased sustainability reporting on those practices so that corporate social and environmental efforts could be better monitored and quantified by the investment community.

Looking Ahead

Looking ahead, Sonen will continue building its impact evaluation and reporting capabilities, with a focus on building the evidence base for the fundamental positive relationship between impact returns and investment returns. Sonen will expand upon its emerging AIMS impact evaluation and reporting framework to improve our understanding of the qualitative and quantitative nature of impact creation across asset classes.

We will continue to gather empirical evidence suggesting that there is a positive relationship between sustainability performance and financial performance, and attempt to make more definitive connections between the actions of impact investors and specific corporate activities that result in greater social and environmental sustainability. Additional developments we expect in 2015 include the following:

New Private Markets Real Assets Strategy: 2015 will be a very active year for Sonen's real assets private markets strategy, which provides investors with an explicit and unambiguous connection to four specific impact outcomes across six key sustainability themes.

New Alternative Asset Classes Strategy: In 2015, Sonen anticipates introducing a new investment strategy designed to deliver highly targeted, thematic impact in alternative asset classes, mostly likely in sectors related to resource scarcity (specifically water), financial services in the United States, global microfinance and renewable energy.

Increased Shareholder Advocacy: During 2015, Sonen plans to strengthen its shareholder engagement efforts. This includes building deeper relationships with underlying managers, monitoring proxy voting, increasing the number of shareholder resolutions that we can co-file alongside other institutional investors and increasing the frequency with which we engage directly with companies on shareholder advocacy issues.

Strategy Consolidation: In order to pursue a broader set of opportunities for measurable social and environmental impact, Sonen's US Public Equity and US Fixed Income strategies will be consolidated into the firm's Global Equity and Global Fixed Income strategies.

Learn More About Sonen Capital

Sonen regularly publishes information on impact investing in both public and private markets, including theme-based impact frameworks and evolving methodologies of impact measurement and evaluation. For more information on Sonen's investment strategies, including detailed information on our impact methodology and supporting documents, visit www.sonencapital.com.

A wide-angle, high-angle photograph of the interior of Grand Central Terminal in New York City. The space is filled with people walking, creating a sense of motion. The architecture is grand, with high ceilings, large windows, and ornate details. A large American flag is visible on the left side. The lighting is warm and ambient.

IMPACT INVESTING IN PUBLIC MARKETS

APPENDICES

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Appendix II: Glossary of Terms

MSCI ACWI: The MSCI ACWI Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. The MSCI ACWI consists of 45 country indices comprising 24 developed and 21 emerging markets country indices. The developed market country indices included are: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom and the United States. The emerging markets country indices included are: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand and Turkey.

MSCI USA IMI: The MSCI USA Investable Market Index (IMI) is designed to measure the performance of the large, mid and small cap segments of the US market. With 2,435 constituents, the index covers approximately 99% of the free float-adjusted market capitalization in the US.

Private Markets (Not Marked-to-Market): Investments that cannot be exchanged or converted to cash easily without a substantial loss in value.

Public Markets (Marketable Securities): Investments that can be converted to cash quickly at a reasonable price.

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