We have clearly entered a new era of governance, and with that, the possibility of a new era of responsible capitalism as well.

Jeff Ubben, Inclusive Capital Partners Founder

Jeff Ubben started ValueAct Capital ("ValueAct") 20 years ago to insert shareholders into the conversation on corporate strategy. Up to that point in his career, management teams were very much in control. Corporate boards were completely disconnected from corporate owners. A challenge to management on new directions and priorities was often met with a simple response, "If you do not like how we are doing things, you can always sell your stock."

Not surprisingly, the performance of these companies tended to be poor, with the stock price reflecting the status quo. Therefore, the opportunity for idiosyncratic return due to changes in operations and capital allocation strategies was quite large.

The shareholder value revolution began around the same 20 years ago, with Enron and WorldCom as prime examples of management primacy run amok and with boards that were asleep at the switch. This coincided with the explosion of hedge funds, with an incentive system typically built on one-year payouts leveraged to other people's money. The ensuing temptation of the combination was simply too great. We believe the ongoing era of shareholder primacy will ultimately prove to have been defined by profit maximization on short-term business performance metrics, often at the expense of long-term value creation.

We suggest that this era, like the one before it, has played itself out. We believe there is very little remaining juice to squeeze – margins are at record levels, industries have consolidated, balance sheets are optimized for cost of capital. It is time for another evolutionary change.

Like the excluded shareholder of 2000, the excluded stakeholders today – society and the environment – represent potential new value levers. We believe that profit maximization in the short term does not tolerate long-term investments that can make a business more workforce, customer, and environmentally compatible. Like the pendulum that swung too far to management in 2000, causing Enron and WorldCom to implode, the pendulum has swung too far to the short-term activist shareholder, causing societal and natural welfare to also implode.

Thus, the stakeholder governance movement was born, and is an important next iteration of corporate priorities. Jeff has served on 15 public company boards and until the last twelve months, had heard very little from management on the health of the work force (voluntary attrition somehow captured it all), or a conscious approach to the customer, or the responsible use of natural resources. In our experience, board members rarely ask for these reports, and very little is offered. Compensation committees have concerned themselves only with financial metrics and total shareholder return. Now, new questions are being asked about intangibles, culture and community, and new environmental goals are being introduced. The management of these matters and achievement of these goals will require more proactive investment, with anticipated longer-term payouts.

It is here in the execution of these new "E" (environmental) and "S" (social) metrics that Inclusive Capital Partners sees a valuable role for an active investor to play. Through the Spring investment philosophy—the name being inspired by Rachel Carson's environmental activist piece, *Silent Spring*—we will partner with management and the boards of companies whose core business seek to achieve the reversal of

corporate harm. We will aim to make capitalism part of the solution, rather than the source of some of the world's biggest problems. We will establish new stakeholder-oriented metrics that are company specific and hold management teams accountable to those, in addition to conventional financial metrics. We will seek to make the markets work in a way that public policy and philanthropy have been unable.

In one sense, Inclusive Capital Partners might be thought of as the successor to the investment strategy that Jeff imagined and implemented at ValueAct – a low stock price becomes the catalyst for a fundamental change in strategy and capital allocation priorities, while at the same time seeking to create a positive risk/return profile. Coincidentally, or not, the investment backdrop is like the one at ValueAct's beginning – a very friendly Federal Reserve, commodities at lows, and a tech bubble. Today, as then, we see a stock market that mirrors society, with its haves versus its have-nots, the darlings versus the mundane (the very industries that heat, move, feed, and employ with fair pay).

Markets tend to narrow around fewer, large stocks as we approach an inflection, usually caused by recessions. It is fascinating to us that "ESG" has been productized, thereby dangerously adding fuel to fire with regards to the funds flow into the same few over-owned stocks (e.g. "Big Technology Stocks Dominate ESG Funds", WSJ, February 11, 2020). The intention of integrating ESG factors has been, from the beginning, to identify material risks and opportunities alongside fundamental analysis as any investor worth one's salt should want to do. It is an investment process, not an investment product.

There are new actively managed public equity funds seeking out smaller companies whose core business is to reduce, reuse, and recycle, when it comes to emissions, materials, and waste. Inclusive Capital Partners will seek opportunities here for sure. We will also seek out earlier stage private companies run by inspired founders with the only constraint to their vision being capital.

But we seek system change. Inclusive Capital Partner will also own the very companies that sustainable funds tend to avoid – including oil and gas, utilities, materials, chemicals and refineries, capital goods, food processing and food service, for-profit education, etc. – because these companies have the customer relationships, technology, work force, capital, and scale to positively impact the transition to a healthier society and planet. By virtue of being incumbents and thus being perceived as part of the problem, so-called "legacy" companies show the greatest potential to become part of the solution and to be re-valued. Purpose – to the work force, to customers, to investors – can be rediscovered. Inclusive Capital Partners will deploy its governance skills and "value" investment discipline to seek to improve environmental and societal performance, because we believe doing so will drive a positively differentiated return for such companies.