EQUITY MARKET TURMOIL
FINDING OPPORTUNITIES WHILE MITIGATING RISK
YOUR FACILITATOR

PATRICK GREGORY, CFA

- Managing Director, Stephen D. Cutler Center for Investments and Finance
- Director, Babson College Fund and member of the Board of Trustees Investment Committee
- Senior Lecturer, Finance Division
- Former institutional portfolio manager with experience managing the Healthcare, Tech, Media, and Telecom sectors
AGENDA

1. Markets Tumble into Bear Market
2. Historical Perspective on Sell-offs
3. Policy Response
4. Uncertain Outlook
5. Investing Amidst Uncertainty

EQUITY MARKET TURMOIL
FINDING OPPORTUNITIES WHILE MITIGATING RISK
SECTION 1

MARKETS TUMBLE INTO BEAR MARKET
SELL OFF

PANDEMIC PROMPTS HISTORIC CRASH

• The equity market downturn during the first quarter was the quickest selloff in history
• In the U.S., the market fell -33.9% in just 24 days, over 10 times faster than the 2008 correction
• Global equity markets plunged into bear market territory faster than ever before
• The combination of a public health disaster and the ensuing macroeconomic shock inflicted a severe blow to stocks
Looking for a bottom

SOURCE: FactSet
SMALL CAPS UNDERPERFORM

Source: S&P
WHY DO SMALL CAPS UNDERPERFORM?

• Companies in the small-cap category tend to be more sensitive to economic downturns than their larger peers
• This missed out on the S&P 500’s march to records throughout 2019 and early 2020 as investors worried about economic expansion and the impact of the U.S.-China trade war
• Fears of economic disruption caused by the pandemic resulted in a 20% performance differential between small-cap and large-cap stocks
SMALL CAPS UNDERPERFORM

Net debt to EBITDA for large and small caps

Source: FTSE Russell, Standard & Poor’s, J.P. Morgan Asset Management.
VALUE UNDERPERFORMS

Source: Russell Investments
Relative Performance in Coronavirus Crisis vs. Prior Crises

MSCI World Industry Groups vs. MSCI World (%)
NO MARKET WAS SPARED

<table>
<thead>
<tr>
<th>Regional Returns as of 3/31</th>
<th>MSCI World Sector Returns as of 3/31</th>
</tr>
</thead>
<tbody>
<tr>
<td>Emerging Markets</td>
<td>Healthcare</td>
</tr>
<tr>
<td>-19.0</td>
<td>-10.8</td>
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<tr>
<td>US Large Caps</td>
<td>Consumer Staples</td>
</tr>
<tr>
<td>-19.6</td>
<td>-12.1</td>
</tr>
<tr>
<td>MSCI World</td>
<td>Utilities</td>
</tr>
<tr>
<td>-20.1</td>
<td>-12.7</td>
</tr>
<tr>
<td>Europe</td>
<td>Technology</td>
</tr>
<tr>
<td>-21.8</td>
<td>-13.0</td>
</tr>
<tr>
<td>Australia</td>
<td>Communication Services</td>
</tr>
<tr>
<td>-23.4</td>
<td>-17.0</td>
</tr>
<tr>
<td>UK</td>
<td>Consumer Discretionary</td>
</tr>
<tr>
<td>-30.5</td>
<td>-21.4</td>
</tr>
</tbody>
</table>

|                | Real Estate                          |
|                | -22.5                                |
|                | Materials                             |
|                | -24.0                                |
|                | Industrials                           |
|                | -25.2                                |
|                | Financials                           |
|                | -30.2                                |
|                | Energy                               |
|                | -43.0                                |

Source: FactSet, FTSE, MSCI, Russell Investments, S&P, Tokyo Stock Exchange and AllianceBernstein (AB)
For the quarter, U.S. equities suffered their worst losses since 2008, with the S&P 500 Index losing -19.60%.

The S&P 400 and 600 Indices were hardest hit, down -29.70% and -32.65% for the quarter.

Taking a step back, the broad market is down only -6.98% over the past 12 months.
SECTION 2

HISTORICAL PERSPECTIVE ON SELLOFFS
# HEADLINES HAVEN’T STOPPED STOCKS

<table>
<thead>
<tr>
<th>Year</th>
<th>Headline</th>
<th>Year</th>
<th>Headline</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>Dot-com bubble bursts</td>
<td>2009</td>
<td>S&amp;P 500 falls to lowest level in a decade</td>
</tr>
<tr>
<td>2001</td>
<td>9/11 terrorist attacks</td>
<td>2010</td>
<td>BP oil spill in the Gulf of Mexico</td>
</tr>
<tr>
<td>2002</td>
<td>Corporate accounting scandals</td>
<td>2011</td>
<td>Eurozone sovereign debt crisis</td>
</tr>
<tr>
<td>2003</td>
<td>Iraq War begins</td>
<td>2013</td>
<td>US government shutdown</td>
</tr>
<tr>
<td>2005</td>
<td>Hurricane Katrina and Wilma</td>
<td>2016</td>
<td>UK votes to leave European union</td>
</tr>
<tr>
<td>2008</td>
<td>Global Financial Crisis (GFC)</td>
<td>2019</td>
<td>Global Trade War</td>
</tr>
</tbody>
</table>
HISTORICALLY A GOOD PLACE TO INVEST

DECLINES DON’T LAST

In the past 40 years, only 9 declines have led to a down year.

Source: FactSet and S&P U.S. daily data (December 31, 1979 to December 31, 2019)
## TIMING MARKET BOTTOMS IS NOT ADVISED

### MSCI World

<table>
<thead>
<tr>
<th>Period</th>
<th>Drawdown</th>
<th>Next Quarter’s Return</th>
<th>Next Year’s Return</th>
<th>Next Three Year’s Return (Annualized)</th>
<th>Next Five Year’s Return (Annualized)</th>
</tr>
</thead>
<tbody>
<tr>
<td>May 2008 – March 2009</td>
<td>-55.1</td>
<td>43.0</td>
<td>75.1</td>
<td>26.0</td>
<td>22.2</td>
</tr>
<tr>
<td>April 2000 – Oct 2002</td>
<td>-49.3</td>
<td>15.4</td>
<td>38.2</td>
<td>21.3</td>
<td>20.9</td>
</tr>
<tr>
<td>May 2011 – Oct 2011</td>
<td>-22.0</td>
<td>12.7</td>
<td>26.6</td>
<td>18.5</td>
<td>12.2</td>
</tr>
<tr>
<td>Sept 2018 – Dec 2018</td>
<td>-17.5</td>
<td>16.3</td>
<td>32.9</td>
<td>?</td>
<td>?</td>
</tr>
<tr>
<td>Apr 2010 – May 2010</td>
<td>-15.2</td>
<td>3.3</td>
<td>29.2</td>
<td>15.0</td>
<td>13.8</td>
</tr>
<tr>
<td>Nov 2020 – Mar 2003</td>
<td>-14.4</td>
<td>26.3</td>
<td>49.0</td>
<td>24.5</td>
<td>16.9</td>
</tr>
<tr>
<td>Aug 1998 – Aug 1998</td>
<td>-13.4</td>
<td>17.5</td>
<td>33.0</td>
<td>3.9</td>
<td>0.6</td>
</tr>
<tr>
<td>July 2015 – Sep 2015</td>
<td>-12.6</td>
<td>9.1</td>
<td>13.2</td>
<td>14.3</td>
<td>?</td>
</tr>
<tr>
<td>Oct 2011 – Nov 2011</td>
<td>-12.0</td>
<td>18.9</td>
<td>21.6</td>
<td>19.1</td>
<td>11.6</td>
</tr>
<tr>
<td>May 2012 – Jun 2012</td>
<td>-10.9</td>
<td>11.8</td>
<td>28.8</td>
<td>17.6</td>
<td>13.2</td>
</tr>
<tr>
<td>Jan 2018 – Mar 2018</td>
<td>-8.6</td>
<td>4.6</td>
<td>4.9</td>
<td>?</td>
<td>?</td>
</tr>
<tr>
<td>Average</td>
<td>-20.6</td>
<td>16.0</td>
<td>31.5</td>
<td>17.4</td>
<td>13.9</td>
</tr>
</tbody>
</table>

Source: MSCI and AllianceBernstein (AB)
100% HIT RATE

Over 20-year periods, as of 12/31/19, stocks have generated positive returns 100% of the time.

- **1-year periods**: 74% went up; 26% went down.
- **5-year periods**: 82% went up; 18% went down.
- **10-year periods**: 91% went up; 9% went down.
- **20-year periods**: 100% went up.

Source: FactSet and S&P U.S. monthly data (December 30, 1949 to December 31, 2019)
VOLATILITY ISN’T RISK (IT’S OPPORTUNITY)

Source: Bloomberg, CBOE, MSCI, and AllianceBernstein (AB)
VOLATILITY ISN’T RISK (IT’S OPPORTUNITY)
AVERAGE RETURNS NEEDED TO RECOVER TO PEAK

S&P 500

<table>
<thead>
<tr>
<th>Time (years)</th>
<th>Average annual return required to recover to peak</th>
<th>Cumulative return required to recover to peak</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 year</td>
<td>29</td>
<td>29</td>
</tr>
<tr>
<td>2 years</td>
<td>15</td>
<td>32</td>
</tr>
<tr>
<td>3 years</td>
<td>10</td>
<td>34</td>
</tr>
<tr>
<td>4 years</td>
<td>8</td>
<td>37</td>
</tr>
<tr>
<td>5 years</td>
<td>7</td>
<td>40</td>
</tr>
<tr>
<td>6 years</td>
<td>6</td>
<td>43</td>
</tr>
<tr>
<td>7 years</td>
<td>5</td>
<td>45</td>
</tr>
<tr>
<td>8 years</td>
<td>5</td>
<td>48</td>
</tr>
<tr>
<td>9 years</td>
<td>5</td>
<td>51</td>
</tr>
<tr>
<td>10 years</td>
<td>4</td>
<td>54</td>
</tr>
</tbody>
</table>
REMAINING IN THE MARKET

Monthly flows for US stock mutual funds vs. stock market performance, 12/97–12/19

Buying high: Limited gains and increased risk

Selling low: Locked in losses and missed the rebound
REMAINING IN THE MARKET

LOCKING IN LOSSES

• Peter Lynch is considered one of the best investors of all time
• His Magellan Fund generated a \(+29\)% average return over his 13-year tenure
• Yet, the average investor in the fund actually lost money
• How is that possible?
REMAINING IN THE MARKET

Market Returns vs. Average Investor returns
1999-2018 (latest data available)

Markets returns vs. average investor returns, 1999–2018 (latest data available)

- S&P 500 Total Return Index: 5.62%
- Average Equity Fund Investor: 3.88%
- Bloomberg Barclay’s US Aggregate Bond Index: 4.55%
- Average Fixed Income Fund Investor: 0.22%

Source: Dalbar, 2019 QAI Report, as of December 31, 2018, latest data available.
SECTION 3

POLICY RESPONSE
POLICY RESPONSE

ECOLOGY GRINDS TO A HALT

- Global growth is currently contracting at its **fastest pace** since the Great Depression of 1929
- The more than decade-long expansion that followed the global financial crisis rested on the back of the strength of robust consumer spending
  That central pillar of support has been ripped from the economy. The services sector that makes up 50% of the US has been decimated.
POLICY RESPONSE

ECONOMY GRINDS TO A HALT

• In just the first two weeks, 10 million people filed unemployment claims in the United States, a number not seen since the Great Depression in the 1930s
• States like Ohio, Connecticut and Nevada have reported claims that are 10 to 15 times the usual rate
• More than 10% of American workers have been displaced
POLICY RESPONSE

REMOWING TAIL RISK

• A global economic recession is now underway
• The speed and size of the fiscal and monetary response of governments and central banks has been encouraging
• It should limit the economic damage on the way down by preventing a widespread credit crunch and helping idled employees and otherwise viable businesses stay afloat
• Economies can’t normalize —and company earnings can’t recover—until the virus is brought under control.
POLICY RESPONSE

REMOVING TAIL RISK

Bernanke-Geithner Axiom of Economic Crisis Management:

1. Act fast
2. Ensure that the central bank and Treasury act in tandem
3. Go big
POLICY RESPONSE

REMOVING TAIL RISK

• When much of the global economy shuts down, the Fed must remove “tail risk”
• The Fed has acted fast to push rates down to close to zero and made asset purchases that dwarf those during the GFC
• The $2.3 trillion fiscal package in the US amounted to 10% of GDP
• Even more prodigious fiscal measures have been announced in Germany (22% of GDP), the United Kingdom (16%) and France (14%).
# POLICY RESPONSE

<table>
<thead>
<tr>
<th>Fed Action</th>
<th>Description</th>
<th>Used in ’08</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial Payer Funding Facility</td>
<td>Special purpose vehicle will purchase A1/P1 commercial paper and short-term municipal</td>
<td>X</td>
</tr>
<tr>
<td></td>
<td>bonds from US issuers</td>
<td></td>
</tr>
<tr>
<td>Primary Dealer Credit Facility</td>
<td>Provides 90-day loans to primary dealers against broad collateral</td>
<td>X</td>
</tr>
<tr>
<td>Money Market Mutual Fund Lending Facility</td>
<td>Provides loans to banks/broker-dealers against eligible collateral purchased from MMFs</td>
<td>X</td>
</tr>
<tr>
<td>Term Asset-backed Securities Loan Facility</td>
<td>Creates an SPV to lend against eligible ABS with underlying credit exposures including auto</td>
<td>X</td>
</tr>
<tr>
<td></td>
<td>loans, student loans, and credit card receivables</td>
<td></td>
</tr>
<tr>
<td>Primary Market Corporate Credit Facility</td>
<td>Creates an SPV to purchase bonds rated at least BBB1/Baa3 and under four years in duration</td>
<td></td>
</tr>
<tr>
<td></td>
<td>and provides loans to eligible issuers</td>
<td></td>
</tr>
<tr>
<td>Secondary Market Corporate Credit Facility</td>
<td>Creates an SPV to purchase eligible individual corporate bonds rated at least BBB1/Baa3</td>
<td></td>
</tr>
<tr>
<td></td>
<td>and under 5 years in duration</td>
<td></td>
</tr>
<tr>
<td>Main Street Business Lending Program</td>
<td>Creates program to support lending to eligible small- and-medium sized businesses,</td>
<td></td>
</tr>
<tr>
<td></td>
<td>complementing efforts by the SBA</td>
<td></td>
</tr>
</tbody>
</table>

Source: Federal Reserve Bank of New York, Bank of America, UBS Asset Management)
## The CARES Act in brief (as of March 30, 2020)

<table>
<thead>
<tr>
<th>Relief Target</th>
<th>Size ($ billions)</th>
<th>Purpose</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industry relief</td>
<td>529</td>
<td>$454 Bn Federal facility risk capital; can be levered to $4.5 Tn $50 Bn in loans and grants for airlines, $8 Bn airline cargo, and $17 Bn for national security industries</td>
</tr>
<tr>
<td>Small business assistance</td>
<td>377</td>
<td>Loans that become grants if employers pay workers, utilities, rent</td>
</tr>
<tr>
<td>Payroll relief</td>
<td>300</td>
<td>Employers can defer 2020 payroll taxes for up to 2 years</td>
</tr>
<tr>
<td>Individual checks</td>
<td>300</td>
<td>$1,200 per individual, $2,400 per couple, and $500 per child for individual incomes under $75,000. Phase outs after that</td>
</tr>
<tr>
<td>Unemployment insurance benefits</td>
<td>250</td>
<td>Increase of $600 per week benefit</td>
</tr>
<tr>
<td>Additional funding for state and local governments and hospitals</td>
<td>250</td>
<td>$150 Bn for state and local governments $150 Bn for hospitals</td>
</tr>
</tbody>
</table>

Source: US Congress, UBS Asset Management
SECTION 4

INVESTING AMIDST UNCERTAINTY
INVESTING AMIDST UNCERTAINTY

DAUNTING TASKS

• Has the market bottomed?
• How long will a recovery take?
• What’s the right way to allocate for the uncertain times ahead?
UNCERTAIN OUTLOOK

• Since 1928, the U.S. has experienced 14 recessions and 21 bear markets, yet the market has never failed to recover and pass its previous peak

• The market sell-off and corresponding volatility is providing an opportunity to increase the quality of your portfolio holdings

• Road map to recovery
  1. Slowing the spread of COVID-19
  2. Temper controls and gradual reopening of the economy
  3. Relaxing of controls completely
UNCERTAIN OUTLOOK

MARKETS TRADING ON NEW CASE DATA

• Websites tracking the spread of Covid-19 show that the daily global increase in new cases may be levelling off
• It is analogous to buying bank stocks through an economic cycle where non-performing loans are tracked carefully
• The concern is a second wave of infection
UNCERTAIN OUTLOOK

WHAT SHAPE WILL THE RECOVERY TAKE?

• The virus’s evolution, the duration of social distancing policies, and the speed at which macro policies will determine the shape of the recovery

• If we experience a V-shaped recovery, the biggest losers on the way down will be the biggest winners all the way back up

• With a U or W-shaped recovery, it’s going to be harder to pick winners
INVESTING AMIDST UNCERTAINTY

HOPE IS NOT A STRATEGY

• Markets are a discounting mechanism of ‘known knowns’ and the weighted probabilities of many ‘known unknowns’
• Use a wide-spectrum of data including web traffic, satellite images, and credit card data to quantify both (to the extent possible)
• Determine which changes are transitory and which are secular
STOCK VALUATIONS MURKY

MSCI World Valuations

Price/Book

- Dec 31, 2019: 2.5
- Mar 31, 2020: 2.0

Price/Cyclically Adjusted Earnings

- Dec 31, 2019: 22.4
- Mar 31, 2020: 19.7

Source: Compustat, Datastream, MSCI, Worldscope and AllianceBernstein (AB)
ESTIMATES DON’T YET REFLECT RECESSION

Consensus Earnings per Share Expectations (2021E)
March 31, 2020 vs. December 31, 2019 (Percent)

Consensus Earnings Growth Expectations
Forecast Growth of 2021 Expected 2019 Reported Earnings

Source: Bloomberg
ESTIMATES DON’T YET REFLECT RECESSION

EARNINGS IMPACT

- Assessing the impact of the pandemic on earnings is challenging
- ‘Look across the valley’ and assess current prices on 2022 earnings
### MSFT DCF ANALYSIS

<table>
<thead>
<tr>
<th></th>
<th>2020E</th>
<th>2021E</th>
<th>2022E</th>
<th>2023E</th>
<th>2024E</th>
<th>2025E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net income</td>
<td>39,309</td>
<td>44,512</td>
<td>50,790</td>
<td>57,573</td>
<td>64,801</td>
<td>72,507</td>
</tr>
<tr>
<td>+ Depreciation &amp; Amort</td>
<td>12,614</td>
<td>13,814</td>
<td>15,083</td>
<td>16,334</td>
<td>17,868</td>
<td>19,389</td>
</tr>
<tr>
<td>+ Other Non-cash Charges</td>
<td>3,660</td>
<td>4,044</td>
<td>4,637</td>
<td>5,057</td>
<td>5,465</td>
<td>5,849</td>
</tr>
<tr>
<td>+ Changes in Operating</td>
<td>1,367</td>
<td>1,741</td>
<td>1,404</td>
<td>1,400</td>
<td>1,557</td>
<td>1,698</td>
</tr>
<tr>
<td>Assets &amp; Liab</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>= Unlevered Cash Flow</td>
<td>56,950</td>
<td>64,111</td>
<td>71,914</td>
<td>80,365</td>
<td>89,691</td>
<td>99,443</td>
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<tr>
<td>- Capital Expenditures</td>
<td>16,177</td>
<td>17,565</td>
<td>19,487</td>
<td>21,493</td>
<td>23,512</td>
<td>25,512</td>
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<tr>
<td>= Unlevered Free Cash Flow</td>
<td>40,772</td>
<td>46,546</td>
<td>52,427</td>
<td>58,871</td>
<td>66,179</td>
<td>73,931</td>
</tr>
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</table>

Assumptions: 3% perpetual growth; 8.5% WACC

Equity value per share $152
### MSFT DCF ANALYSIS

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<td>0</td>
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<td>66,179</td>
<td>73,931</td>
</tr>
</tbody>
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Assumptions: 3% perpetual growth; 8.5% WACC

**Equity value per share**: $142
INVESTING AMIDST UNCERTAINTY

SURVIVAL OF THE FITTEST

• Downturns can have a Darwinian effect
• When recession strikes, strong companies tend to get stronger while the weak get weaker or disappear
• The earnings crunch in 2020 could lead to stronger and more profitable business in the years ahead for companies that make it through
INVESTING AMIDST UNCERTAINTY

SURVIVAL OF THE FITTEST

• The first order of business is to determine which companies have the staying power to ride out this downturn
• Look at a company’s underlying business demand, financial position and ability to cut costs
• If you can’t be highly confident that a company will still be around when this is over, you’re probably taking undue risk
INVESTING AMIDST UNCERTAINTY

SURVIVAL OF THE FITTEST

• Start by building models of monthly cash burn under various scenarios
• How would the company perform in a sharp V-shaped recovery versus a U-shaped one?
• These patterns might also unfold in multiple phases of demand drops and recovery
UNCERTAIN OUTLOOK

SURVIVAL OF THE FITTEST

• Ways companies will use to close the critical funding gaps:
  • Reduce or eliminate expenses, especially labor
  • Reduce or eliminate R&D
  • Dividend cuts
  • Asset sales and/or leaseback of assets
  • Acceptance of government aid (with conditions!)
  • Force majeure
  • Bankruptcies
INVESTING AMIDST UNCERTAINTY

SURVIVAL OF THE FITTEST

• Shift emphasis to credit analysis
• Review debt maturity schedules (and debt covenants)
• Balance-sheet strength and cash-flow continuity are key indicators of survival
INVESTING AMIDST UNCERTAINTY

SURVIVAL OF THE FITTEST

- Fundamental research focuses on the underlying business
- Business models that aim to grab market share through innovation look promising
- Be sure there is a ‘moat’ around the business
- Evaluate the competitive landscape
INVESTING AMIDST UNCERTAINTY

IMAGINE THE POST-CORONAVIRUS WORLD

• Investors must think today about what type of trends will reshape the landscape in the future
• Some businesses won’t survive the crisis, some will be permanently impaired, and but others will emerge as winners
• Investors want to avoid the former and purchase the latter
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IMAGINE THE POST-CORONAVIRUS WORLD

• Digital transformation
• Healthcare
• Consumer
• FinTech
INVESTING AMIDST UNCERTAINTY

CHANGING BEHAVIOR COULD CHANGE DEMAND

• People everywhere are experiencing startling changes to work and everyday life. What’s next?
  • Will companies and their employees be more comfortable with remote working arrangements?
  • Will business travel be permanently reduced as we become more acclimated to video meetings?
  • Is demand for “experiences” like theme parks and cruises going to be permanently impaired?
  • What about grocery shopping?
Section 5

NOT EVERYTHING THAT COUNTS CAN BE COUNTED
COMPANIES WITH HIGHER ESG RATINGS FELL LESS

Returns by MSCI ESG Rating
Market cap weighted average %
Jan – Mar 2020

MSCI ACWI

ESG Leaders
ESG Laggards

-15.6
-22.1

S&P 500

Index

ESG Leaders
ESG Laggards

-10.8
-22.2
## ESG FUNDS OUTPERFORM

<table>
<thead>
<tr>
<th>Fund Name</th>
<th>YTD Price Change (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brown Advisory Sustainable Growth Fund (BAFWX)</td>
<td>-5.4</td>
</tr>
<tr>
<td>Nuveen Winslow Large Cap Growth ESG Fund (NVLI)</td>
<td>-7.4</td>
</tr>
<tr>
<td>Green Century Equity Fund (GCEQX)</td>
<td>-10.7</td>
</tr>
<tr>
<td>Putnam Sustainable Leaders Fund (PNOPX)</td>
<td>-10.7</td>
</tr>
<tr>
<td>iShares MSCI USA ESG Select ETF (SUSA)</td>
<td>-11.2</td>
</tr>
<tr>
<td>Parnassus Core Equity Fund (PRBLX)</td>
<td>-11.9</td>
</tr>
<tr>
<td>Calvert US Large Cap Core Responsible Index (CSXAX)</td>
<td>-12.1</td>
</tr>
<tr>
<td>iShares ESG MSCI USA ETF (ESGU)</td>
<td>-12.5</td>
</tr>
<tr>
<td>SPDR S&amp;P 500 Fossil Fuel Reserves ETF (SPYX)</td>
<td>-12.7</td>
</tr>
<tr>
<td>Vanguard ESG US Stock ETF (ESGV)</td>
<td>-12.9</td>
</tr>
<tr>
<td>Ave Maria Growth Fund (AVEGX)</td>
<td>-13.0</td>
</tr>
<tr>
<td>American Century Sustainable Equity Fund (AFDAX)</td>
<td>-13.0</td>
</tr>
<tr>
<td>S&amp;P 500</td>
<td>-13.7</td>
</tr>
</tbody>
</table>

Source: S&P Global Market Intelligence

YTD Price Change (%) As of April 9
For us, sustainability is not an end in and of itself; it is a means by which we turn over more rocks, look at more information, and add a complementary lens in order to gain conviction on a company’s strategy, operations, and growth prospects

- Karina Funk, Portfolio Manager
HOME DEPOT, MICROSOFT, AND PAYPAL

• During the upheaval, management’s most enduring actions will include ESG decisions as well as financial ones.
• It’s easy to publish a shiny sustainability report, but during tough times, we get to see they prioritize stakeholders.
• Investors are embracing these types of corporate actions, even though they may come at the expense of short-term earnings.
CONCLUDING THOUGHTS
LENGTHENING YOUR INVESTMENT HORIZON

MSCI World Index total return dispersion around the mean return 2014-2018

Source: MSCI. The MSCI World Index measures stock markets in the developed world. MSCI makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. The MSCI data may not be further redistributed or used as a basis for other indices or any securities or financial products. This report is not approved, reviewed or produced by MSCI.

*Source: Ned Davis Research Group, from Barron’s and IDC. The average holding period for a stock was 0.8 years as of 12/31/18.
LENGTHENING YOUR INVESTMENT HORIZON

NYSE average holding periods, 1929 – 2018

Sources: Barron’s, IDC, as of 12/31/18.
Creative thinking, a sober assessment of the short-term challenges, and a focus on long-term business fundamentals and valuations all figure as keys to identifying the quality companies poised to survive through the pandemic and thrive in the new post-crisis reality.

-KENT HARGIS
THANK YOU

It’s been a pleasure speaking to you!
SPECIAL GUEST

JOHN C. BAILER, CFA ‘92

• Senior Portfolio Manager for the dividend-focused Large Cap strategies at Mellon
• He has managed the team’s dividend strategies since 2005 and is the lead portfolio manager for the Equity Income Strategy
• Senior research analyst on Dynamic Large Cap Value strategy responsible for the Consumer, Technology & Communication Services sectors
• 28 years of industry experience
• Chairman of the Stephen D. Cutler Center for Investments and Finance Advisory Board
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The comments, opinions, and analyses outlined in this presentation may change without notice. Data from third party sources was used in the preparation of this presentation, but has not been verified, validated, or audited.
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