2019 EDELMAN TRUST BAROMETER

Special Report | Institutional Investors
Global Results
2019 Institutional Investor Trust Report

Methodology

N=610 Institutional Investors

Online quantitative study among

U.S. n=104
U.K. n=100
Canada n=101
Germany n=100
Japan n=104
Netherlands n=101

Fielded from August 30th to September 30th, 2019

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Appendix 39
Diverse Sample

Primary Investment Style

<table>
<thead>
<tr>
<th>Investment Style</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Growth</td>
<td>36%</td>
</tr>
<tr>
<td>Value</td>
<td>17%</td>
</tr>
<tr>
<td>Industry-specific</td>
<td>12%</td>
</tr>
<tr>
<td>Activist</td>
<td>11%</td>
</tr>
<tr>
<td>Quantitative/Index</td>
<td>10%</td>
</tr>
<tr>
<td>Hedge</td>
<td>9%</td>
</tr>
<tr>
<td>GARP</td>
<td>6%</td>
</tr>
</tbody>
</table>

Age

- Under 24: 5%
- 25-34: 22%
- 35-44: 53%
- 45-54: 17%
- 55-64: 3%
- 65+: 1%

Gender

- Male: 68%
- Female: 32%

Respondents’ Job Titles

- Financial Analysts: 38%
- Chief Investment Officers: 33%
- Portfolio Managers: 15%
- Directors of Research: 7%
- Investment Stewardship: 6%

Organizations’ Assets Under Management

In USD

- Less than $500 million: 13%
- $500 million – less than $1 billion: 25%
- $1 billion – less than $10 billion: 25%
- $10 billion – less than $50 billion: 18%
- $50 billion or more: 17%

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S1: What is your approximate age range?
S7. In your current job, approximately how much are your institution's investable assets?
S8. Which of the following best describes your position or level within your company or organization?
D2. What is the primary investment style for the funds you manage on behalf of your organization?
D4. What is your gender?
NextGen Investment Criteria

- Total addressable market (TAM)
- Healthy corporate culture
- Strong code of conduct
- Ability to attract best + brightest talent
- Company front and center on societal issues
- Preparedness for global social & environmental risks
- E+S focused on full value chain
- ESG tied to compensation
- Board diversity
- Board engagement
- Strength of leadership team & board
- Cash flow outlook
- Margin and profitability story
- Clear and compelling growth strategy
- Capital allocation framework
- Company’s position within the industry
- ESG
- Employee Engagement
- Next Level Governance
Multi-Stakeholder Commitment is the New Business Imperative
Investors agree that corporations need to have multi-stakeholder commitment

Some experts say that maximizing shareholder returns can no longer be the primary goal of the corporation and that business leaders should commit to balancing the needs of shareholders with customers, employees, suppliers and local communities.

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Q30: Some experts say that maximizing shareholder returns can no longer be the primary goal of the corporation, and that business leaders should commit to balancing the needs of shareholders with customers, employees, suppliers and local communities. To what extent do you agree with this statement?
Building trust is key to a multi-stakeholder strategy

Importance of a company having a high level of trust to being able to…

- Attract and retain the best and brightest employees: 43% Important Summary, 32% Critically Important Summary, 75% Selected
- Win new customers and grow market share: 39% Important Summary, 35% Critically Important Summary, 74% Selected
- Increase its valuation multiple: 44% Important Summary, 28% Critically Important Summary, 72% Selected
- Operate without unnecessary involvement from regulators: 44% Important Summary, 28% Critically Important Summary, 72% Selected
- Attract new investors to buy its stock: 40% Important Summary, 32% Critically Important Summary, 72% Selected
- Effectively execute its strategic plan: 39% Important Summary, 31% Critically Important Summary, 70% Selected
- Fight off investor activism: 43% Important Summary, 25% Critically Important Summary, 68% Selected

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Q2b: Using the scale below, please rate how important it is that a company has a high level of trust when it comes to each of the following.
Trust seen as a C-Suite and Board-Level priority

Edelman Trust Barometer Special Report: Institutional Investors
Q2a: Who do you look to be the most important stewards of trust within a company?

<table>
<thead>
<tr>
<th>Role</th>
<th>% Selected</th>
</tr>
</thead>
<tbody>
<tr>
<td>The company’s CEO</td>
<td>48</td>
</tr>
<tr>
<td>The company’s CFO</td>
<td>41</td>
</tr>
<tr>
<td>The company’s Board of Directors</td>
<td>34</td>
</tr>
<tr>
<td>Head of Strategy</td>
<td>33</td>
</tr>
<tr>
<td>The Investor Relations Officer of a company</td>
<td>27</td>
</tr>
<tr>
<td>Chief Communications Officer</td>
<td>24</td>
</tr>
<tr>
<td>The company’s legal counsel</td>
<td>23</td>
</tr>
<tr>
<td>The employees of the company</td>
<td>23</td>
</tr>
<tr>
<td>Chief Marketing Officer</td>
<td>23</td>
</tr>
<tr>
<td>Head of Government Regulations</td>
<td>19</td>
</tr>
<tr>
<td>A company’s media spokesperson</td>
<td>14</td>
</tr>
</tbody>
</table>
But are CEOs living up to expectations?

Percent who say this is important when considering an organization as a potential place of employment vs. those who say their current employer is doing this

Employees question management’s honesty

<table>
<thead>
<tr>
<th>Management always tells the truth</th>
<th>Employee Expectation</th>
<th>Employer Performance</th>
<th>24pt gap</th>
</tr>
</thead>
<tbody>
<tr>
<td>55</td>
<td>79</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Employees question CEO’s values

<table>
<thead>
<tr>
<th>CEO embodies organization’s values</th>
<th>Employee Expectation</th>
<th>Employer Performance</th>
<th>14pt gap</th>
</tr>
</thead>
<tbody>
<tr>
<td>60</td>
<td>74</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
ESG is a Key Driver for Investor Trust
More than half of investors believe that ESG practices positively impact trust

Positive Impact on Trust
% Selected

- Maintaining a healthy company culture: 59%
- Enforcing a corporate code of conduct at all levels of the company: 56%
- Having a separate Chairman and CEO: 55%
- Diversity within a company's Board of Directors and executive team: 55%
- Equal voting rights (super voting share class): 53%
- Addressing societal issues: 53%
- Frequently refreshing the Board of Directors: 50%
- Proxy access: 48%

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Q2: How much do each of the following corporate behavioral practices positively impact your trust in a company that you are/may consider investing in or recommending?
For each one, please indicate the level of impact using a 9-point scale where 1 means “no positive impact on trust” and 9 means “a great deal of positive impact on trust.” Top 2

Q5: How much does each of the following corporate governance practices positively impact your trust in a company that you are/may consider investing in or recommending?
For each one, please indicate the level of impact using a 9-point scale where 1 means “no positive impact on trust” and 9 means “a great deal of positive impact on trust.”
Investors are investing more in ESG-excelling companies

<table>
<thead>
<tr>
<th>Actions to be Attentive to ESG Risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>% Selected</td>
</tr>
<tr>
<td>Increased our investment allocation to companies that excel when it comes to ESG factors</td>
</tr>
<tr>
<td>We vote our shares more often for board candidates that we believe will increase the company's attention to ESG issues</td>
</tr>
<tr>
<td>We vote our shares more often to support ESG-related policy initiatives</td>
</tr>
</tbody>
</table>

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Q17: You just indicated that your firm has changed its voting or engagement policies to be more attentive to ESG risks. Specifically, what is your firm doing in this regard?
All components of ESG remain important

Environmental practices

- 54% Important
- 23% Most important

Social practices

- 54% Important
- 21% Most important

Governance practices

- 57% Important
- 24% Most important

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Q15: Please select how important each of the following elements are when it comes to ESG investing. For each one, please indicate how important it is using a 9-point scale where 1 means “Not at all important” and 9 means “Most important”.

13
### Cybersecurity, employee health and eco-efficiency are top priorities for investors

99% of investors expect the Board of directors to oversee at least one ESG topic.

#### ESG Topics

<table>
<thead>
<tr>
<th>ESG Topic</th>
<th>% Planning to Engage with the Board in the Next 6 Months</th>
</tr>
</thead>
<tbody>
<tr>
<td>Data privacy and cybersecurity</td>
<td>74</td>
</tr>
<tr>
<td>Employee health and safety</td>
<td>73</td>
</tr>
<tr>
<td>Eco-efficiency of the company's operations</td>
<td>72</td>
</tr>
<tr>
<td>Diversity and inclusion</td>
<td>70</td>
</tr>
<tr>
<td>Social issues in the local community</td>
<td>68</td>
</tr>
<tr>
<td>Human capital management</td>
<td>67</td>
</tr>
<tr>
<td>Supply chain environmental and social risk</td>
<td>67</td>
</tr>
<tr>
<td>Climate risk's impact on the company</td>
<td>66</td>
</tr>
<tr>
<td>Resource scarcity</td>
<td>64</td>
</tr>
</tbody>
</table>

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Q25: Which of the following ESG topics do you expect boards of directors to oversee?

Q26: Do you plan to engage with the Boards of the companies you invest in on any of these ESG topics within the next six months?
Cyberattacks, political instability and climate change are expected to impact the investment landscape in the next 5 years.

<table>
<thead>
<tr>
<th>Risk</th>
<th>% Selected</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cyberattacks</td>
<td>49</td>
</tr>
<tr>
<td>Political instability</td>
<td>42</td>
</tr>
<tr>
<td>Climate change</td>
<td>42</td>
</tr>
<tr>
<td>Natural disasters and/or extreme weather events</td>
<td>37</td>
</tr>
<tr>
<td>Population growth</td>
<td>36</td>
</tr>
<tr>
<td>Terrorism</td>
<td>33</td>
</tr>
<tr>
<td>Large-scale involuntary migration</td>
<td>30</td>
</tr>
<tr>
<td>Water scarcity</td>
<td>29</td>
</tr>
<tr>
<td>Food insecurity or hunger</td>
<td>27</td>
</tr>
<tr>
<td>I do not worry about any global social or environmental risks affecting the investment landscape</td>
<td>2</td>
</tr>
</tbody>
</table>

Edelman Trust Barometer Special Report: Institutional Investors
Q27: Which of the following do you see as the top global social and environmental risks that you think will affect the investment landscape in the next 5 years?
Investors consider E+S impact across the full value chain

When evaluating social and environmental risks related to an investment decision, do you consider risk to the full value chain of the company?

% Selected Yes

74%
Investors want the C-suite to be compensated on ESG progress

Linking executive compensation to financial performance positively impacts my trust in a company

- 56% "Has a positive impact"
- 20% "A great deal of positive impact"

Linking executive compensation to ESG target performance positively impacts my trust in a company

- 52% "Has a positive impact"
- 21% "A great deal of positive impact"

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Q5: How much does each of the following corporate governance practices positively impact your trust in a company that you are/may consider investing in or recommending? For each one, please indicate the level of impact using a 9-point scale where 1 means "no positive impact on trust" and 9 means "a great deal of positive impact on trust."
Investors associate ESG with performance and growth

Positive Correlation Between Operational Performance and ESG Disclosure

% Selected Yes

58%

ESG Initiatives Lead to Favorable Impact On:

<table>
<thead>
<tr>
<th>Impact</th>
<th>% Selected</th>
</tr>
</thead>
<tbody>
<tr>
<td>Growth</td>
<td>54</td>
</tr>
<tr>
<td>Risk management</td>
<td>51</td>
</tr>
<tr>
<td>Reputation</td>
<td>47</td>
</tr>
<tr>
<td>Return on investment</td>
<td>47</td>
</tr>
<tr>
<td>Employee retention</td>
<td>38</td>
</tr>
</tbody>
</table>

Edelman Trust Barometer Special Report: Institutional Investors
Q23: Do you see a positive correlation between operational performance and ESG disclosure?
Q18: On which of the following do active ESG initiatives by a company have the most favorable contribution?
Investors Double Down on ESG
Investors are changing their voting and engagement policy to be more attentive to ESG

My firm has changed its voting and/or engagement policy to be more attentive to ESG risks

- 87% Agree
- 26% Strongly Agree

My firm would consider investing with a lower rate of return if it meant investing in a company that addresses sustainable or impact investing considerations

- 86% Agree
- 27% Strongly Agree
Globally, more than half of investment firms are hiring more staff for ESG

Firms Hiring Additional Staff for ESG
% Selected Yes

56%
ESG hires drive investment decisions

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Q21: Where do ESG-specific hires sit in the firm’s organization?

- Portfolio management: 50%
- ESG-specific divisions: 50%
- Governance/ proxy voting/ investment stewardship: 43%
- We don't make ESG hires: 5%
GRI and SASB are the leading frameworks investors use to evaluate ESG practices

Edelman Trust Barometer Special Report: Institutional Investors
Q19: Which ESG reporting frameworks do you use, or intend to use as part of your investment decisions / valuation criteria?
Investors assess corporate culture by speaking with senior leadership and employees

Percent that selected “a healthy company culture has a significant positive impact on trust”

Methods Used to Evaluate Corporate Culture
% Selected

- Speaking with senior leadership: 51%
- Speaking with current employees at all levels: 47%
- Employee engagement surveys: 47%
- Best Places to Work rankings: 42%
- Monitoring employee social media sites like Glassdoor, Indeed: 41%
- Workforce diversity percentages: 40%
- Voluntary employee turnover rate: 39%
- Speaking with ex-employees: 33%

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Q4: You just said that maintaining a healthy culture has a significant positive impact on your trust in a company. What metrics or methods do you use to evaluate corporate culture and the success of the company’s human capital management practices?
Investors believe Board diversity should be multi-dimensional

Among those that selected “diversity within a company’s Board has a significant positive impact on trust”

Diversity within a company’s board has a significant positive impact on trust

% Selected

55%

Important Types of Diversity to Build Trust

<table>
<thead>
<tr>
<th>Diversity Type</th>
<th>% Selected Top Three</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business areas of expertise</td>
<td>59</td>
</tr>
<tr>
<td>Business strategy philosophies</td>
<td>53</td>
</tr>
<tr>
<td>Experience outside the industry or sector</td>
<td>52</td>
</tr>
<tr>
<td>Age</td>
<td>26</td>
</tr>
<tr>
<td>Nationality</td>
<td>23</td>
</tr>
<tr>
<td>Ethnicity</td>
<td>21</td>
</tr>
<tr>
<td>Gender</td>
<td>21</td>
</tr>
<tr>
<td>Race</td>
<td>18</td>
</tr>
</tbody>
</table>

Edelman Trust Barometer Special Report: Institutional Investors
Q5: How much does each of the following corporate governance practices positively impact your trust in a company that you are/may consider investing in or recommending? For each one, please indicate the level of impact using a 9-point scale where 1 means “no positive impact on trust” and 9 means “a great deal of positive impact on trust.”
Q6: You just said that diversity within a company’s Board of Directors and executive team has a significant positive impact on your trust in a company. What are the top 3 types of diversity you consider to be the most important when it comes to trust building?
Investors believe Board diversity should be multi-dimensional

Among those that selected “diversity within a company’s Board has a significant positive impact on trust”

Important Types of Diversity to Build Trust %

Selected Top Three

- Business areas of expertise (e.g., sales, finance, operations, legal)
- Business strategy philosophies
- Experience outside the industry or sector
- Ethnicity
- Gender
- Age
- Nationality
- Race
- None of the above

- Total
- Male
- Female

Edelman Trust Barometer Special Report: Institutional Investors
Q6: You just said that diversity within a company’s Board of Directors and executive team has a significant positive impact on your trust in a company. What are the top 3 types of diversity you consider to be the most important when it comes to trust building?
Without Trust, Beware Multi-Stakeholder Activism
Companies become vulnerable when overemphasizing shareholder returns

Are companies partially responsible for current employee and consumer activism because they overemphasize shareholder returns at the expense of other stakeholders?

71% Selected Yes
Employee activism makes a company a less attractive investment

Most companies are not prepared for employee activism

Companies with activist employees are less attractive investments

- **79%** Agree
- **23%** Strongly Agree

- **74%** Agree
- **24%** Strongly Agree
Shareholder activism is alive and well

I will support a reputable activist investor if I believe change is necessary at a company I invest in or recommend investing in:

- **90%** Agree
- **36%** Strongly Agree

In general, as a firm, we are more interested in taking an activist approach to investing:

- **83%** Agree
- **28%** Strongly Agree

I believe my firm’s actions can have a meaningful role in influencing a company’s operating performance:

- **88%** Agree
- **36%** Strongly Agree

Most companies are not prepared to handle activist campaigns:

- **80%** Agree
- **23%** Strongly Agree

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Q7: Please indicate the extent to which you disagree or agree with the following statements regarding shareholder activism.
Companies are unprepared because they fail at identifying emerging risk

Among those that selected “most companies are not prepared to handle activist campaigns”

<table>
<thead>
<tr>
<th>They fail to...</th>
<th>Why Companies are Unprepared for Activist Campaigns</th>
</tr>
</thead>
<tbody>
<tr>
<td>Define and specify new and emerging areas of risk and value creation, including cybersecurity, ESG, technological innovation, etc.</td>
<td>51</td>
</tr>
<tr>
<td>Clearly communicate a credible growth strategy</td>
<td>46</td>
</tr>
<tr>
<td>Acknowledge and proactively respond to investor concerns</td>
<td>45</td>
</tr>
<tr>
<td>Provide specific detail on capital allocation strategies and priorities</td>
<td>42</td>
</tr>
<tr>
<td>Detail Board-level oversight and governance as well as articulate potential changes over time</td>
<td>41</td>
</tr>
<tr>
<td>Articulate company and industry risks and how they may impact valuation</td>
<td>39</td>
</tr>
</tbody>
</table>

Edelman Trust Barometer Special Report: Institutional Investors
Q8: You just indicated that most companies are not prepared to handle activist campaigns. In your experience, what are these unprepared companies failing to do?
In the face of activism, Board engagement is as important as management engagement

Among those that selected “my firm is interested in taking an activist approach to investing”

Ways Firms are Taking an Activist Approach

- Actively seeking an audience with the Board of Directors: 44%
- More frequently asking to meet with a company’s management: 44%
- Nominating director candidates: 41%
- Pressuring executive management to make operational and/or governance changes: 40%
- Launching a public campaign to publicize your concerns with a company’s business or operating strategy: 39%
- Voting against executive compensation packages: 33%
- Withholding votes against current board members: 31%
- The stewardship code: 6%
- We are only becoming more interested. We have not yet begun to act on that interest: 1%

86% of investors must trust a company’s Board of Directors before making or recommending an investment

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Q9: You just indicated that your firm is more interested in taking an activist approach to investing. Specifically, in what ways is your firm being more activist in its approach to investing?
Q2: Please indicate the extent to which you agree or disagree with the following statements.
Re-establishing Trust Amidst Underperformance: Back to Basics
Shoring up trust for underperforming companies

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Q12: If a company is underperforming compared to its peers and trading at a significant discount, what actions can it take to maintain your trust in its ability to improve its performance or meet expectations going forward?
Increased transparency and shareholder engagement can also help to maintain trust

<table>
<thead>
<tr>
<th>Communication Tactics to Maintain Trust</th>
<th>% Selected</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supply additional disclosure around financial and operational performance that puts the underperformance in a context that makes sense</td>
<td>52</td>
</tr>
<tr>
<td>Increase shareholder engagement outreach to communicate corporate governance initiatives</td>
<td>52</td>
</tr>
<tr>
<td>Hold an investor day to fully explain the company's strategy and operating plan</td>
<td>49</td>
</tr>
<tr>
<td>Introduce a long-term (3-5 year) guidance framework</td>
<td>46</td>
</tr>
<tr>
<td>Increase access to Board members</td>
<td>42</td>
</tr>
<tr>
<td>There is nothing it could do to retain my trust in the face of such underperformance</td>
<td>1</td>
</tr>
</tbody>
</table>

Q13: If a company is underperforming compared to its peers and trading at a significant discount, what communication tactics can it take to maintain your trust in its ability to improve its performance or meet expectations going forward?
# Primary drivers of long-term valuation

## Important Attributes for Long-Term Valuation

<table>
<thead>
<tr>
<th>Attribute</th>
<th>% Selected Top 3 Most Important</th>
</tr>
</thead>
<tbody>
<tr>
<td>Growth strategy</td>
<td>50</td>
</tr>
<tr>
<td>Risk assessments</td>
<td>41</td>
</tr>
<tr>
<td>Technology &amp; innovation pipeline</td>
<td>39</td>
</tr>
<tr>
<td>Employee commitment and engagement</td>
<td>33</td>
</tr>
<tr>
<td>Corporate purpose</td>
<td>31</td>
</tr>
<tr>
<td>Executive compensation</td>
<td>28</td>
</tr>
<tr>
<td>Board of director composition</td>
<td>27</td>
</tr>
<tr>
<td>Shareholder engagement</td>
<td>27</td>
</tr>
<tr>
<td>ESG factors</td>
<td>25</td>
</tr>
</tbody>
</table>

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Q14: Beyond financial projections, what other aspects are important to determine a company’s long-term (3-5 year) valuation? Please select the 3 most important aspects that you use to determine a company’s long-term valuation.
Social Channels Matter
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Q32: Please indicate to what extent you agree or disagree with the following statements.

Q33: Below is a list of digital and social platforms. In general, in your role, which do you use on a weekly basis to inform your investment decisions?

- Investors use 1 or more social platforms on a weekly basis
- When evaluating a current or prospective investment, I consult the company’s social media channels
- When evaluating a current or prospective investment, I consult the executive’s social media channels

- 96% Agree
- 82% Strongly Agree
- 79% Agree
- 24% Strongly Agree
Appendix

Edelman Trust Barometer
Special Report: Institutional Investors
2019 Edelman Trust Barometer

Methodology

Online Survey in 6 Markets

610 respondents total
U.S. n=104
U.K. n=100
Germany n=100
Japan n=104
Canada n=101
Netherlands n=101

All fieldwork was conducted between August 30 and September 30, 2019

Institutional Investors

Must meet 6 criteria:
Age 18+
In 6 global markets
No family in advertising/public relations or market/public opinion research
In finance/investing
Works in an institution that pools money to invest
Responsible for decisions regarding institution's investable assets

28-market global data margin of error: General population +/- 0.6% (N=32,200), informed public +/- 1.2% (N=6,200), mass population +/- 0.6% (26,000+), half-sample global general online population +/- 0.8% (N=16,100).

Market-specific data margin of error: General population +/- 2.9% (N=1,150); informed public +/- 6.9% (N = min 200, varies by market, China and U.S. +/- 4.4% (N=500), mass population +/- 3.0 to 3.6% (N = min 740, varies by market).