# The Future Looks Green With A Change Of Power

Fourth Quarter 2020

## The New Administration's Impact On ESG Investing

While COVID-19 certainly dominated headlines in 2020, the world also faced a record year for climate-related disasters, including massive wildfires, floods, and hurricanes. Having cited climate change as the "number one issue facing humanity," President-elect Joe Biden seems likely to drive ESG-friendly policy initiatives particularly directed at such crises, all while aggressively moving the economy toward a long-term carbon transition. Now, under a unified government, such policies have a clear path forward, suggesting investors can expect ESG issues to become increasingly relevant to the success of companies—and therefore increasingly important to asset managers and investors—in the years ahead.

**We expect the Biden administration to take the following actions:**

**1. Rejoin the Paris Agreement.**
We expect President-elect Biden to promptly re-enter the Paris Climate Agreement, perhaps in his first day in office. The agreement, originally assumed in December 2015, tasks countries with adopting voluntary climate targets to keep climate change below 2 degrees Celsius and targeted a 20% reduction in carbon emissions by 2020. From 2015 to 2018, U.S. greenhouse gas emissions remained flat. As a result of the pandemic this year, net generation fell by 3%, and coal-fired generation fell by more than 20%. Usage will likely begin to normalize this year. The U.S. has an opportunity to regain credibility among its global peers or even to finally emerge as an outright leader. Obvious, direct beneficiaries to these trends include renewable energy, electric vehicle, and clean energy innovators, along with companies proactively working to limit their overall footprint. Those most at risk include energy companies tied to coal and natural gas, along with oil and gas producers.

**2. "Build Back Better" with green infrastructure plan.**
In addition to rejoining the Paris Agreement, President-elect Biden is planning a four-year, $2 trillion economic plan to invest in energy transition. The plan will promote the transition from fossil fuels to renewable energy and prepare

the nation's infrastructure to withstand the impacts of climate change. Biden will also seek to cut electric power carbon emissions to zero by 2035 and to achieve economy-wide net zero emissions by 2050. Biden envisions creating millions of jobs in sustainable infrastructure and clean energy.

The renewable energy, water infrastructure, automotive and public transit, building and construction, and sustainable agriculture sectors clearly stand to benefit from this transition. Municipalities could also benefit through investment in roads and bridges and overall infrastructure climate adaptation.

**3. Reform criminal justice.**
President-elect Biden has made clear that his administration will stand for equality and justice, in particular by enacting reforms to reduce the U.S. jail and prison population (from 2.3 million today). Reforming our country's war on drugs and cash bail system, which historically most deeply affected the disenfranchised, could begin to alleviate the problem of racial disparity in the criminal justice system. We also expect the federal government to phase out its use of large, for-profit private prison companies, all of which exist in many mainstream stock indices, exchange-traded funds, and mutual funds. Reforms could also free up billions of federal dollars, which could be redirected toward building safer communities and increasing funds for low-income schools.

**4. Push for more ESG reporting.**
We expect the Securities and Exchange Commission (SEC) to develop clearer rules around public company ESG disclosures, which could lead to broader sustainability reporting across the economy and better data comparability with uniform standards. The rules will likely require companies to disclose specific climate-related risks and other material ESG issues. Companies lagging in ESG disclosure and reporting will likely face challenges in getting up to speed. The new administration will also likely seek to reverse—or at least clarify—Trump administration efforts to thwart ESG investing in ERISA pension plans and in proxy voting rules around ESG issues.

**5. Set a strong example for diversity & inclusion.**
The Biden administration promises to be the most diverse in this country's history, even exceeding the high diversity standards of the Obama administration. Starting with Kamala Harris as his running mate, Biden has gone on to name many women and people of color to Cabinet-level posts, signaling for corporate America to step up its diversity efforts. As studies continue to show how gender, ethnic, and racial diversity in board rooms enhances decision making and overall company performance,

investors will increasingly scrutinize companies' abilities to properly manage human capital. At this point, women hold close to 30% of board seats at S&P 500 companies, and 21% of seats are ethnically diverse.

**6. Increase minimum wages.**
Biden wants to raise the federal minimum wage to $15 an hour (up from $7.25), a move that could help to close racial and income equality gaps while lifting more people out of poverty. Such a boost by 2025 could benefit 17 million people who currently earn less than $15, according to the Congressional Budget Office, but some economists argue small businesses in particular could react by laying off employees to cut costs. Still, large companies like Amazon, Costco, BestBuy, Starbucks, and Target have already adopted a $15 minimum wage, which puts pressure on companies like Walmart and McDonald's to follow suit. While higher costs from higher pay clearly affect corporate earnings, the resulting lower employee turnover rates and higher productivity can arguably more than fill the void. Under this administration, companies ahead of the curve in terms of human capital management stand to benefit, while those falling behind could face further investor scrutiny.

## Seeds Portfolios Are Positioned To Benefit

Seeds' investment approach focuses on mitigating risk by limiting exposures to material ESG issues as well as actively looking to identify companies and industries that are poised to benefit from greater investor focus on sustainability. Under the new administration, many companies that have lagged in ESG performance will face significant risk as new rules and regulations related to climate issues, products, human capital, corporate governance, and overall transparency and reporting begin to take effect. Inversely, companies that have prioritized a strong ESG approach are poised to benefit, and investors will likely take notice (Table 1).

**Table 1.**

| Seeds Portfolio Companies Poised To Benefit Under New Administration | | | |
|---|---|---|---|
| **Company** | **Industry** | **Market Cap** | **ESG Considerations** |
| Vestas Wind | Industrials | $50B | Pure-play wind turbine company with 122 GW installed capacity in 82 countries. |
| Eversource Energy | Utilities | $30B | Making investments in EV charging, offshore wind, and energy storage. Northeast U.S. regional focus. |
| Air Products | Materials | $64B | Poised to benefit from hydrogen powered fuel cell vehicles. Also investing in carbon capture & storage. |
| Con. Edison | Utilities | $23.5B | Investments in renewable energy, smart grids, energy efficiency, and EV charging infrastructure. |
| DTE Energy | Utilities | $23B | Net zero target by 2050, investments in wind and solar, energy efficiency, plan to close coal plants. |
| First Solar | Industrials | $11B | Solar pure-play, largest solar manufacturer in U.S. Sustainable manufacturing releases less CO2 emissions. |
| Brookfield Renew. | Utilities | $13.3B | Hydropower, wind, and solar assets with 19.4 GW capacity. |
| NextEra Energy | Utilities | $155B | Investments in wind and solar projects in 48 states. Plans to phase out coal in its generating portfolio. |
| Home Depot | Cons. Disc. | $288B | Diversity, eco-friendly products, recycling, lower carbon emissions, minimum wages vary by state. |
| Target Corp. | Cons. Disc. | $96B | Reduce plastic waste, worker health & well-being, $15 minimum wage, rooftop solar at stores. |
| Kroger Co. | Cons. Stap. | $24.4B | Healthy food, diversity & inclusion, Black Lives, climate impact, reduce waste & packaging. |
| Starbucks | Cons. Disc. | $122B | Ethically sourced coffee, recyclable cups, diversity & inclusion, equal pay, $15 minimum wage. |

Note: Full holdings report available upon request. This chart is shown for illustrative purposes only. There is no guarantee of performance. Positions above may not be included in every Seeds portfolio.

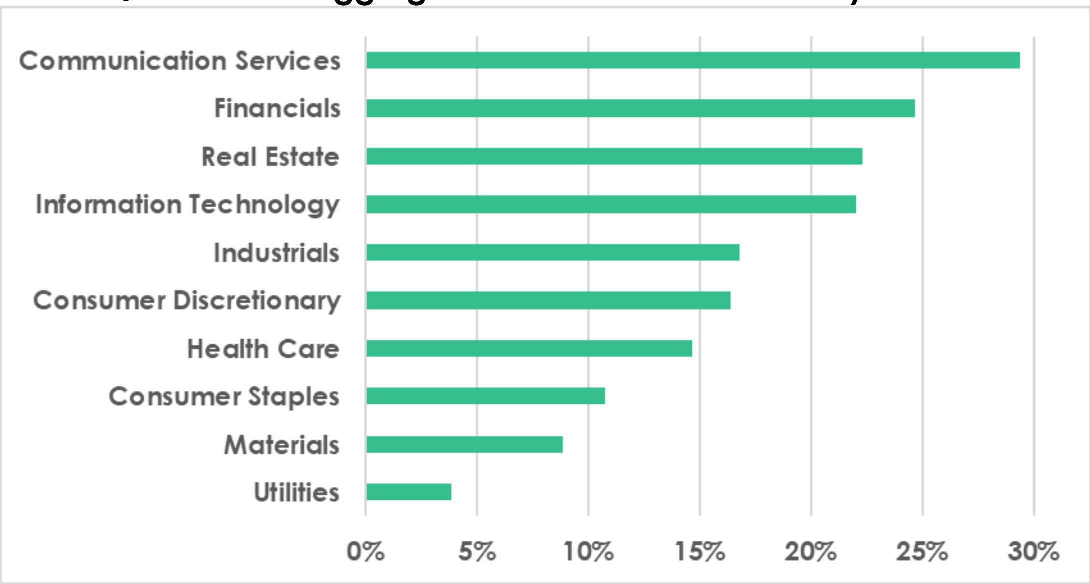
**Table 2.**

| Fourth Quarter 2020 Seeds Core Holdings Performance | | | |
|---|---|---|---|
| **Name** | **Symbol** | **Sector** | **(%) Return** |
| Morningstar, Inc. | MORN | Consumer Discretionary | 44.62 |
| Mohawk Industries, Inc. | MHK | Consumer Discretionary | 44.43 |
| Vestas Wind Systems A/S | VWSYF | Industrials | 44.29 |
| Trimble Inc. | TRMB | Information Technology | 37.10 |
| Keysight Technologies Inc | KEYS | Information Technology | 33.72 |
| CBRE Group, Inc. Class A | CBRE | Real Estate | 33.53 |
| LVMH SE ADR | LVMUY | Consumer Discretionary | 32.77 |
| ASML Holding NV ADR | ASML | Information Technology | 32.51 |
| Sony Corporation Sponsored ADR | SNE | Consumer Discretionary | 31.73 |
| HP Inc. | HPQ | Information Technology | 30.56 |
| Heineken NV Sponsored ADR | HEINY | Consumer Staples | 25.43 |
| Jabil Inc. | JBL | Information Technology | 24.40 |
| Arrow Electronics, Inc. | ARW | Information Technology | 23.70 |
| Cigna Corporation | CI | Healthcare | 22.89 |
| FLIR Systems, Inc. | FLIR | Information Technology | 22.81 |
| STMicroelectronics NV ADR RegS | STM | Information Technology | 21.07 |
| Sysco Corporation | SYY | Consumer Staples | 20.21 |
| Eaton Corp. Plc | ETN | Industrials | 18.53 |
| Mettler-Toledo International Inc. | MTD | Healthcare | 18.01 |
| W.W. Grainger, Inc. | GWW | Industrials | 14.90 |
| Target Corporation | TGT | Consumer Discretionary | 12.61 |
| adidas AG Sponsored ADR | ADDYY | Consumer Discretionary | 12.58 |
| Waste Management, Inc. | WM | Industrials | 4.69 |
| Danone SA ADR | DANOY | Consumer Staples | 1.63 |
| Home Depot, Inc. | HD | Consumer Discretionary | -3.82 |

Note: Full holdings report available upon request. Core holdings are those positions that Seeds believes screen strongest regardless of client values priorities and therefore are included in all client portfolios. This list does not include positions sold or bought during the quarter. Gross returns do not reflect the deduction of any expenses, including trading costs, and are presented as supplemental information to net returns. Each client's returns will vary based on the client's actual portfolio holdings and the actual fees charged to the account. Seeds began managing advisory client assets in March of 2020. Gross of fee since inception returns will be reduced by investment advisory fees and other expenses that may be incurred in the management of the account. As an example, using the effect of investment advisory fees on the total value of a client's portfolio assuming (a) monthly fee assessment, (b) $1,000,000 investment, (c) gross returns as shown and (d) the highest possible annual investment advisory fee of 0.75% would produce for the time period shown returns of 44.43%, 44.24%, 44.11%, 36.92%, 33.53%, 33.34%, 32.58%, 32.32%, 31.54%, 30.37%, 25.25%, 24.21%, 23.51%, 22.70%, 22.62%, 20.89%, 20.02%, 18.34%, 17.82%, 14.72%, 12.42%, 12.39%, 4.50%, 1.44%, -4.01% based on the holdings above, respectively. The advisor's applicable fees are described in Part 2A of the Form ADV.

During the fourth quarter, Seeds portfolio performance was led by communications services, financials, real estate, information technology, industrials, consumer discretionary, and health care. All of these sectors beat the S&P 500's 10% return in the fourth quarter. Lagging sectors include materials and utilities (Chart 1).

**Chart 1.**
**Fourth Quarter 2020 Aggregate Portfolio Performance By Sector**




Note: "Aggregate" represents the total stock universe available for seeds allocations.

At the end of the fourth quarter, our Seeds portfolios on average over-weighted consumer discretionary, consumer staples, industrials, materials, and real estate relative to the S&P 500 Index. Our portfolios were underweight communication services, energy, financials, and healthcare. Our portfolios were equal weight information technology and utilities (Table 3). While Seeds does not purposefully deviate from S&P 500 sector weightings, each Seeds allocation may include sector variability relative to each other and to the benchmark based on the investable universe availability and on client values prioritization.

**Table 3.**

| Aggregate Sector Weights Vs. S&P 500 (proxy) | | |
|---|---|---|
| **Sector** | **Seeds Aggregate (%)** | **S&P 500 (%)** |
| Communication Services | 2.32 | 10.75 |
| Consumer Discretionary | 17.73 | 12.69 |
| Consumer Staples | 12.15 | 6.50 |
| Energy | - | 2.28 |
| Financials | 7.34 | 10.42 |
| Health Care | 10.19 | 13.44 |
| Industrials | 11.74 | 8.38 |
| Information Technology | 27.93 | 27.56 |
| Materials | 4.22 | 2.62 |
| Real Estate | 3.60 | 2.41 |
| Utilities | 2.78 | 2.76 |

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

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

**Table 4.**

| Fourth Quarter 2020 Seeds Average Turnover | |
|---|---|
| **Average Securities Per Portfolio (No.)** | **Average Turnover (%)** |
| 62 | 6.2% |

Thanks for your interest in Seeds. Please feel free to contact us if you have any questions or comments at support@seedsinvestor.com or visit our website at www.seedsinvestor.com.

## Disclosures

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