

As The World Opens, Crypto, Board Changes, And Company Actions Capture Investor Attention

Second Quarter 2021

Through COVID, “S” Issues Stayed In The Spotlight

As the world begins to open, the decisions of companies during the COVID-19 pandemic remain in the spotlight. In a time of such crisis, the world watched intently as companies reacted to unprecedented challenges across all aspects of business. For some, those challenges exposed critical weaknesses, particularly in their approaches to social issues like worker treatment and safety. In some cases, companies with historically questionable employment practices faced significant operational problems and intensified scrutiny from investors. Amazon, for example, wrestled with rising COVID infections among its warehouse employees, demands for more paid time off, and damaged public perception related to its behavior.¹

Others, however, rose to the occasion with a sharpened focus on health and safety protocols, more flexible time off, and proactive initiatives toward living wages. During the pandemic, these behaviors represented even more critical components to stronger overall social and sustainability assessments in the eyes of investors. According to JUST Capital's polling, the public considers paying fair wages as the most important action for stakeholders—a standard that became more relevant than ever during a global pandemic.² Target, for example, implemented employee-friendly policies, including paid time off, virtual doctor visits, free backup care, and cash bonuses.³ Over the past 52 weeks, the company's stock has risen 112% versus 40% for the broad S&P 500 benchmark.

Diversity Pays Dividends

Beyond worker pay and safety, workplace diversity and inclusion came to the forefront of investor considerations over the past year, partially because of the various social injustices that captured national attention. For investors, that meant taking a closer look at individual company decision-making related to diversity efforts, and how collective efforts in corporate America might influence broader change.

¹Seeds portfolios do not hold Amazon at this time.

²JUST Capital creates a Ranking of America's Most JUST Companies, which evaluates and scores Russell 1000 companies on the issues that matter most to the American public, derived from its robust public opinion research process.

³Target is held in certain Seeds Core Equity Portfolios.

This focus for investors not only reflected a desire to influence social justice more expressly by way of stock ownership, but an understanding that action in these areas could meaningfully affect financial performance and overall shareholder value. For example, McKinsey & Co published an extensive report last year finding that companies in the top quartile of gender diversity on executive teams were 25% more likely to experience above-average profitability than fourth quartile companies.

What Seeds is doing. On the social side of the equation, Seeds focuses on human capital management, human rights, health and safety, and diversity and inclusion. We do not overweight these issues in our analysis but assess them within our holistic assessment, incorporating other indicators of environmental performance and good corporate governance. A Seeds company must perform well across all issues to be considered for inclusion in portfolios. This quarter, we added Hologic (HOLX), a company focused on women's health, to certain Seeds allocations. We also added Royal Bank of Canada (RY) to certain portfolios, given its focus on sustainable finance and its strong diversity and inclusion programs.

Is Crypto A Hot Investment (Or Just Warming the Earth?)

While proponents continue to suggest that cryptocurrencies like Bitcoin represent the future of currency, investors have raised questions about its environmental sustainability. From a social perspective, crypto arguably drives financial inclusion by offering 1.7 billion under- or unbanked people access to a global and open-ended financial infrastructure, according to World Bank.

From an environmental perspective, however, there's concern over crypto mining's power usage and related carbon emissions—especially since over 75% of the Bitcoin network's computing and processing power comes from mining originating in China, which has a predominantly coal-fired energy grid, according to the Cambridge Centre for Alternative Finance (CCAF).

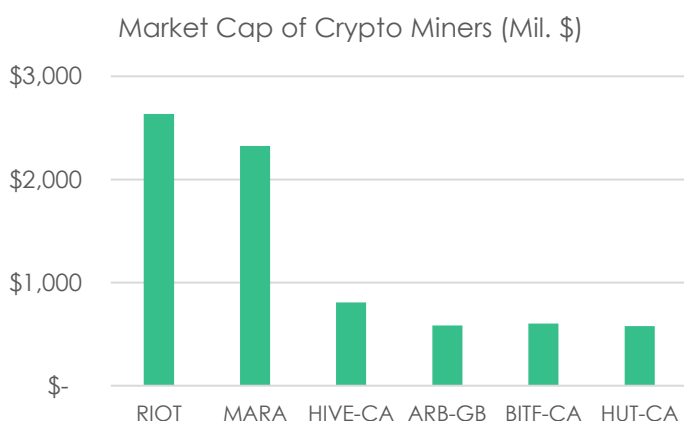
After Tesla purchased \$1.5 billion in Bitcoin back in February, Elon Musk tweeted in May that the company would no longer accept the crypto asset as payment because of environmental concerns.⁴ Cryptocurrency mining consumes a lot of power, but 75% of global Bitcoin mining using hydropower and other renewable energy, which reduces overall emissions. Today, mining only consumes 110-130 Terawatt hours per year, or 0.55% of global electricity use, according to CCAF.

⁴Seeds portfolios do not currently hold Tesla.

In June, Musk reversed course, tweeting that Tesla would accept Bitcoin, assuming miners used at least 50% renewable energy in the process. Meanwhile, miners recently signed the Crypto Climate Accord, which makes commitments to 100% renewable energy. We expect more crypto mining companies to integrate sustainable practices into their operations.

What Seeds is doing. Seeds does not currently have exposure to Bitcoin or other cryptocurrencies. While Bitcoin mining is becoming more sustainable and good for society, the industry's nascent stage, volatility in the market, lack of sizeable market cap, and high valuation multiples keep us on the sidelines.

Chart 1.



Source: FactSet

A Wakeup Call for Corporate Boards

In a huge win for sustainable and climate investors, a little-known hedge fund called Engine No. 1 won three board seats at Exxon's annual shareholder meeting. The energy giant will now have to consider long-term transition plans away from oil and gas. Well-known investors including BlackRock, New York State Common Fund, and CalSTRS supported Engine No. 1's slate of directors. Proponents elected three of four of Engine No. 1's board nominees, including former CEO of Andeavor (an oil refiner) Gregory Goff, environmental scientist Kaisa Hietala, and Andrew Karsner, a strategist at Google and former Assistant Secretary for Energy Efficiency and Renewable Energy. The proxy battle led to record costs, with Exxon and Engine No. 1 spending a combined \$65 million.

The win by Engine No. 1 is a positive step for climate activists and a wakeup call for entrenched corporate boards resisting carbon transition. In light of its success, Engine No. 1 recently launched the Engine No. 1 Transform 500 ETF (VOTE). The ETF plans to vote its shares in support of climate change and other

sustainable proxy initiatives. The ETF product makes activist investing accessible for all investors, and Engine No. 1 plans to target specific engagements across the S&P 500 to drive environmental and social issues.

What Seeds is doing. Seeds does not own Exxon (XOM) or other fossil fuel companies. In the future, we may consider owning stocks that are targeted by activist investors, but only if there is a positive sustainability story and a pathway to better shareholder returns.

Table 1.

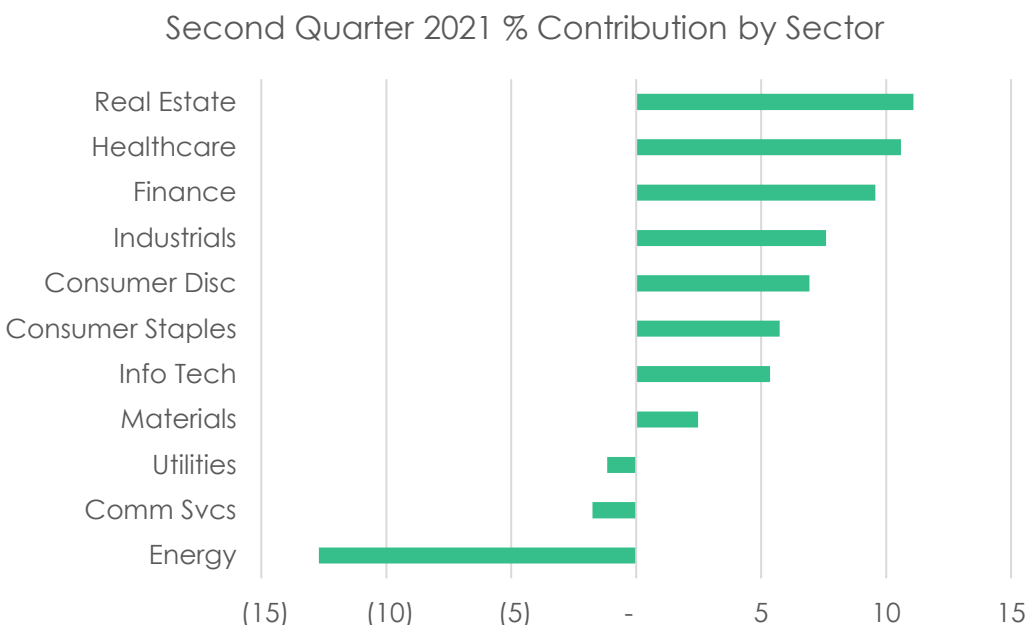
Second Quarter 2021 Seeds Core Equity Holdings Performance			
Name	Symbol	Sector	Return
Target Corporation	TGT	Consumer Discretionary	22.0%
Mettler-Toledo International Inc.	MTD	Health Care	19.9%
Adidas AG Sponsored ADR	ADDYY	Consumer Discretionary	19.0%
LVMH Moët Hennessy ADR	LVMUY	Consumer Discretionary	17.9%
Heineken NV Sponsored ADR	HEINY	Consumer Staples	17.7%
Morningstar, Inc.	MORN	Consumer Discretionary	14.3%
ASML Holding NV ADR	ASML	Information Technology	11.9%
Jabil Inc.	JBL	Information Technology	11.4%
W.W. Grainger, Inc.	GWW	Industrials	9.2%
Waste Management, Inc.	WM	Industrials	8.6%
CBRE Group, Inc. Class A	CBRE	Real Estate	8.4%
Keysight Technologies	KEYS	Information Technology	7.7%
Eaton Corp.	ETN	Industrials	7.2%
Trimble Inc.	TRMB	Information Technology	5.2%
TE Connectivity Ltd.	TEL	Information Technology	4.7%
Home Depot, Inc.	HD	Consumer Discretionary	4.5%
Danone SA ADR	DANOY	Consumer Staples	2.3%
Sysco Corporation	SYU	Consumer Staples	-1.3%
Cigna Corporation	CI	Health Care	-1.9%
Vestas Wind Systems A/S	VWSYF	Industrials	-4.7%
HP Inc.	HPQ	Information Technology	-4.9%
STMicroelectronics NV ADR RegS	STM	Information Technology	-5.1%
Sony Group Corporation ADR	SONY	Consumer Discretionary	-8.3%
Orsted Un-sponsored ADR	DNNGY	Energy	-13.3%

Note: Full holdings report available upon request. See additional returns disclosures at the end of this document. Core holdings are those positions that Seeds believes screen strongest regardless of client values priorities and therefore are included in all client portfolios.

During the second quarter, Seeds Core Equity portfolios in aggregate (“Seeds”) rose 7.0% versus 8.5% for the S&P 500 Index. On a year-to-date (June 30) basis, Seeds has risen 17% versus 15% for the S&P 500. During the quarter, performance was led by the health care, real estate, industrials, and financials sectors. All of these sectors outperformed the S&P 500’s 8.5% gain in the second quarter.

Sector laggards include energy, communications services, materials, and utilities (chart 1). Due in part to heightened inflationary concerns, the financial markets were relatively more volatile in the second quarter.

Chart 2.



Source: FactSet. Note: "Average" refers to the average performance of all existing Seeds model allocations. Full performance reports available upon request. Contribution to return measures the contribution of the sector constituents to the portfolio's overall return.

At the end of the second quarter, Seeds portfolios on average over-weighted consumer discretionary, consumer staples, industrials, materials, and real estate relative to the S&P 500. Portfolios were underweight communication services, financials, and health care. Our portfolios were equal weight information technology, energy, and utilities (table 2).

Relative sector weights remain unchanged compared to the first quarter. 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. Over the long run, we strive to keep sector exposures equal weight with the S&P 500.

Table 2.

Seeds Core Equity Aggregate Sector Weights Vs. S&P 500 (proxy)		
Sector	Seeds Aggregate	S&P 500
Information Technology	26.9%	27.1%
Consumer Discretionary	16.5%	12.3%
Industrials	12.4%	8.6%
Consumer Staples	11.3%	5.9%
Health Care	10.3%	13.0%
Financials	8.2%	11.4%
Materials	4.0%	2.6%
Communication Services	2.0%	11.2%
Energy	1.9%	2.9%
Other	6.5%	5.1%

Note: "Aggregate" represents the total stock universe available for Seeds allocations. Figures exclude cash position. Other includes the real estate and utilities sectors.

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, and sustainable business practices. In this active approach, trades are generally made as a result of sustainability metrics, fundamental financial metrics, valuation, or deeper qualitative assessment. Seeds trades can vary for each portfolio. (See the full list in table 4.)

During the second quarter, Seeds Core Equity portfolios averaged 3.8% (15% annualized) turnover. This was down compared to 5.4% in the prior quarter. In general, we strive to keep turnover rates low and exercise tax efficiency with our trades (table 3).

Table 3.

Seeds Average Turnover Per Quarter		
Quarter	Average Securities Per Portfolio (No.)	Average Turnover
Q4 2020	62	2.2%
Q1 2021	62	5.4%
Q2 2021	62	3.8%

Table 4.

Complete Second Quarter 2021 Buys & Sells		
Companies Bought		
Symbol	Name	Sector
VMW	VMWare, Inc.	Technology
NLOK	Norton Life Lock	Technology
HOLX	Hologic, Inc.	Health Care
TSM	Taiwan Semiconductor	Technology
RY	Royal Bank of Canada	Financials
Companies Sold		
Symbol	Name	Sector
CRM	Salesforce.com	Technology
MA	Mastercard Inc.	Financials
GILD	Gilead Sciences	Health Care
INTC	Intel Corp.	Technology
CLX	Clorox Company	Consumer Staples
NUAN	Nuance Communications	Technology

Seeds Fixed Income: Keeping An Eye On Inflation

Rising inflation concerns pushed 10-year yields up 81 basis points from January to the end of March 2021. The 10-year yield peaked at 1.74% on March 31, 2021. Since then, yields have steadily fallen back to the 1.30% level as inflation concerns have abated. Within this market environment, bond funds suffered negative returns in the first quarter followed by a rebound in the second quarter. Corporate bond funds are generally down 1-2% on a year-to-date basis.

Seeds offers a Core Fixed Income Strategy made up of fixed income funds and a tax-free fixed income portfolio, through our partnership with Alliance Bernstein. (table 5).

Table 5.

Seeds Fixed Income Returns		
Fund Name/Ticker	Three-month	YTD
BlackRock Systematic ESG Bond Fund (BIIX)	1.81%	-1.72%
iShares Advanced Total USD Bond Market ETF (EUSB)	1.67%	-1.42%
TIAA-CREF Core Impact Bond Fund (TSBHX)	2.03%	-0.97%
iShares ESG Aware 1-5 Year USD Corporate Bond ETF (SUSB)	0.60%	0.04%
Vanguard Inflation Protected Securities Fund (VAIPX)	3.11%	1.70%
Alliance Bernstein Municipal Impact SMA	1.39%*	0.99%*
Bloomberg Barclays US Aggregate Bond Index	1.83	-1.60%
Bloomberg Barclays Municipal Bond Index	1.42%	1.06%

Source: Company reports as of June 30, 2021, Bloomberg. Fund returns are net of fund expense ratios. (*) SMA Returns are gross of fees. See Fund Prospectuses and Websites for more information.

Seeds has partnered with best-in-class investment managers known for their fixed income investing and ESG focus, including BlackRock, iShares, and Nuveen. We continually engage with each portfolio management team to understand their investment processes and ensure each approach—and the collective of approaches—reasonably aligns with Seeds' overarching investment philosophy.

BlackRock Systematic ESG Bond Fund (BIIIX). The fund provides intermediate core bond exposure across fixed income sectors and instruments. The fund selects corporate bonds of companies that generate positive societal impact outcomes. In addition to ESG integration, the fund screens out controversial sectors including weapons, oil sands, thermal coal, nuclear weapons, and tobacco.

iShares Advanced Total USD Bond Market ETF (EUSB). The ETF invests in investment grade and high-yield bonds of issuers with leading ESG practices. It also applies screens to avoid companies with low ESG ratings and controversial sectors including fossil fuels.

TIAA-CREF Core Impact Bond Fund (TSBHX). The fund is actively managed and invests across the investment grade USD fixed income market. It targets companies with sustainability leadership and/or direct or measurable environmental and social impacts.

Alliance Bernstein Municipal Impact SMA. AB Muni Impact invests in issues that deliver a positive social and environmental impact, with a focus on underserved and low socioeconomic status communities. It is a high-quality, intermediate portfolio, with the ability to invest selectively in lower-rated bonds. Almost 84% of holdings are rated A or better. Key areas for investment include education, mass transit, water/wastewater, and health care.



Disclosures

This commentary was written by members of the investment committee at Seeds Investor LLC ("Seeds"), a Registered Investment Adviser located in New York State, headquartered at 311 W. 43RD Street, New York, NY 10036. Tel. 212-287-7370. This document is for your private and confidential use only and not intended for broad usage or dissemination. The commentary is not intended as specific advice and does not constitute an offer to sell securities. Consult your financial professional before making any investment decision. Seeds is an investment adviser and offers asset management services. Advisory services are only offered to clients or prospective clients where Seeds and its representatives are properly licensed or exempt from licensure.

Past performance is no guarantee of future results. 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.

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 in table 1 and (d) the highest possible annual investment advisory fee of 0.75% would produce for the time period shown returns of 21.7%, 19.5%, 18.6%, 17.5%, 17.3%, 13.9%, 11.5%, 11.1%, 8.9%, 8.2%, 8.0%, 7.3%, 6.8%, 4.8%, 4.3%, 4.1%, 2.0%, -1.6%, -2.3%, -5.0%, -5.3%, -5.5%, -8.7%, and -13.7%, based on the holdings above, respectively. The advisor's applicable fees are described in Part 2A of the Form ADV.

Diversification/asset allocation does not ensure a profit or guarantee against a loss. Please contact your financial professional for your actual historical returns, as well as the reporting of all balances and securities transactions.

Alliance Bernstein Municipal Impact Fixed Income is a strategy managed by Alliance Bernstein L.P. ("AB"). All portfolio statistics, characteristics and holdings are subject to change. There can be no assurance that any investment objectives will be achieved.

Product Definitions

Mutual Funds - Mutual funds are investment companies that pool money from many investors and invest it based on specific investment goals. Mutual funds raise money by selling their own shares to investors. The money is used to purchase a portfolio of stocks, bonds, short-term money-market instruments, other securities or assets, or some combination of these investments. Each share represents an ownership slice of the fund and gives the investor a proportional right, based on the number of shares he or she owns, to income and capital gains that the fund generates from its investments. All mutual funds have internal expenses that lower your investment returns, details of which can be found in their prospectuses.

ETFs - Exchange-traded funds (ETFs) combine aspects of mutual funds and conventional stocks. Like mutual funds, ETFs are pooled investment funds that offer an investor an interest in a professionally managed, diversified portfolio of investments. But unlike mutual funds, ETF shares trade like stocks on stock exchanges and can be bought or sold throughout the trading day at fluctuating prices. In addition to any fees you may pay, ETFs have expense ratios, like mutual funds, calculated as a percentage of the assets you have invested. They generally have lower internal expenses than traditional Mutual Funds. In general, actively managed ETFs cost more than passively managed index ETFs. In rapidly failing markets, however, ETFs may decline much faster than their actual holdings or the indexes that they track.

Indices Definitions

The S&P 500 Index is a market capitalization-weighted Index of 500 widely held stocks often used as a proxy for the stock market. It measures the movement of the largest issues. Standard and Poor's chooses the member companies for the 500 based on market size, liquidity and industry group representation. Included are the stocks of industrial, financial, utility, and transportation companies.

Barclays US Aggregate is an index is composed of the BarCap Government/Credit Index, the Mortgage-Backed Securities Index, and the Asset-Backed Securities Index. The returns we publish for the index are total returns, which includes the daily reinvestment of dividends. The constituents displayed for this index are from the following proxy: iShares Core US Aggregate Bond ETF.