

## FOCUS ON: SOCIAL SUSTAINABILITY

MARCH 2021

In April 2020, Equilibrium published its **Sustainability Framework 2.1**, documenting the practical implementation of a proprietary ESG reporting structure created to drive value. This report also highlighted the need for continuous improvement, one key area being the improved tracking of social impact metrics.

The "E" (environmental) and "G" (governance) components of ESG are now part of mainstream investor conversations, but it has taken a year of global unrest to bring the "S" (social) or human element of sustainability to the fore. Social issues may be difficult to quantify and embed in investment strategies, but they present very real opportunities and risks. The management of people-related concerns is now high on the radar of stakeholders along the entire value chain, and integral in maintaining a social license to operate.

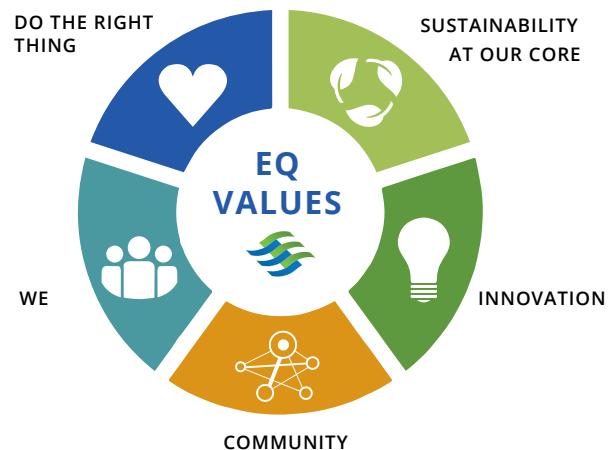
### SOCIAL IMPACT REPORTING

Anyone perusing the current crop of corporate impact reports will notice that people-related issues, measures, and impacts are more prevalent, with a growing number addressing:

- Equitable compensation
- Healthcare and workplace safety
- Diversity and inclusion
- Education and training
- Community development

Academic research points to the correlation of these factors to financial performance and some of the world's largest private equity firms have set out to demonstrate this. Blackstone, Carlyle, KKR, and Credit Suisse, amongst others, not only promote the humanitarian aspect of business activities, but increasingly tie social progress to benchmarks like earnings and compensation. At the same time, corporations representing key economic drivers, e.g. the technology, food and agriculture, and energy sectors, are refocusing on commitments to all stakeholders.

In 2021, Equilibrium is refining its social metrics, targeting materiality and links to productivity and profitability. This is not a knee-jerk response to a cry for social justice or reactive scramble to meet investor expectations. To us, the benefits of living up to our corporate values are clear, most notably positive gains generated by the knowledge that "we" – employees, shareholders, investors, customers, and communities – are all in this together. We have long understood that fair employment practices, sustainable product strategies, and societal benefits are now seen as drivers of long-term value through innovation, productivity, customer loyalty, capital cost reductions, and regulatory compliance.



Sustainability standards-setters are under pressure to address gaps in the disclosure, rating, and certification of social metrics. Qualitative statements of alignment with frameworks like the **United Nations' Sustainable Development Goals (SDGs)** are becoming commonplace, for example, around **decent work (Goal #8)**, **clean water (Goal #6)**, **affordable energy (Goal #7)**, and **healthy food (Goal #2)**. Still, the ability to quantify impacts remains elusive. It is far easier to present policies and commitments than find – let alone standardize – metrics associated with social wellbeing. Examples of organizations tackling this challenge include the Global Impact Investing Network (GIIN) and the Sustainable Accounting Standards Board (SASB).

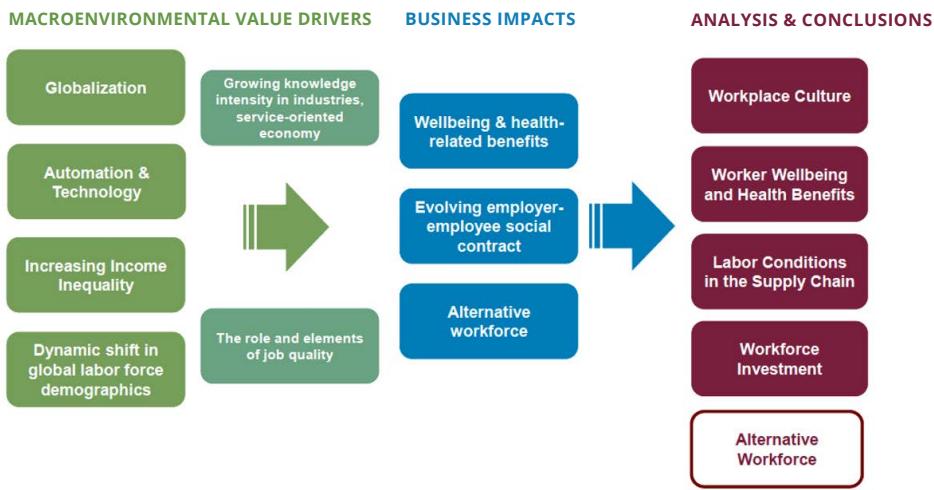


**SASB's Human Capital Project** is currently assessing the scope of human capital management across its 77 industry categories. Considering global trends around income inequality, technology gains, shifting labor demographics, and globalization, SASB has identified social metrics across the following themes:

- Workforce investment
- Worker well-being
- Workplace culture
- Labor conditions in the supply chain
- Alternative workforce

Human capital was already represented in SASB's codified standards; however, stakeholder consultation will provide insight as to investors' perceptions of the materiality on this broader set of themes.

#### SASB HUMAN CAPITAL FRAMEWORK STRUCTURE



**GIIN's IRIS Catalog of Metrics** includes a number of generally accepted measures designed to assess the performance of an investment. Cross category social metrics deal with:

- Job placements, training, and promotion opportunities
- Wages and fair compensation policies
- Employee tenure and turnover
- Healthcare benefits and workplace safety indicators
- Diversity (of board, staff, investment committee, and ownership)
- Community engagement strategies

GIIN's 2020 Annual Impact Investor Survey revealed that only 17 percent of large investors with greater than \$500 million in assets under management focus exclusively on social metrics, although eight in ten report both a social and environmental focus. We expect a greater share to align with more rigorous people-focused global development agendas in the coming year.

As SASB Human Capital Project lead Kelli Okuji Wilson highlights, what might be deemed socially "important" is not necessarily the same as "financially material", while "disclosures" around metrics do not necessarily dictate "impact".

The Human Capital Project focuses on employees; SASB views externalities of the business itself, e.g., customer welfare and access, as Social Capital. Supply Chain Management is also a separate SASB category, one that incorporates externalities created by suppliers such as human rights and labor practices. The latter can be particularly complex, calling into question who is ultimately responsible for social impacts along multi-tiered supply chains.

*"Inclusion supplements diversity. Diversity is composition; inclusion is what are you doing to allow diversity to thrive."*

– Kelli Okuji Wilson, SASB

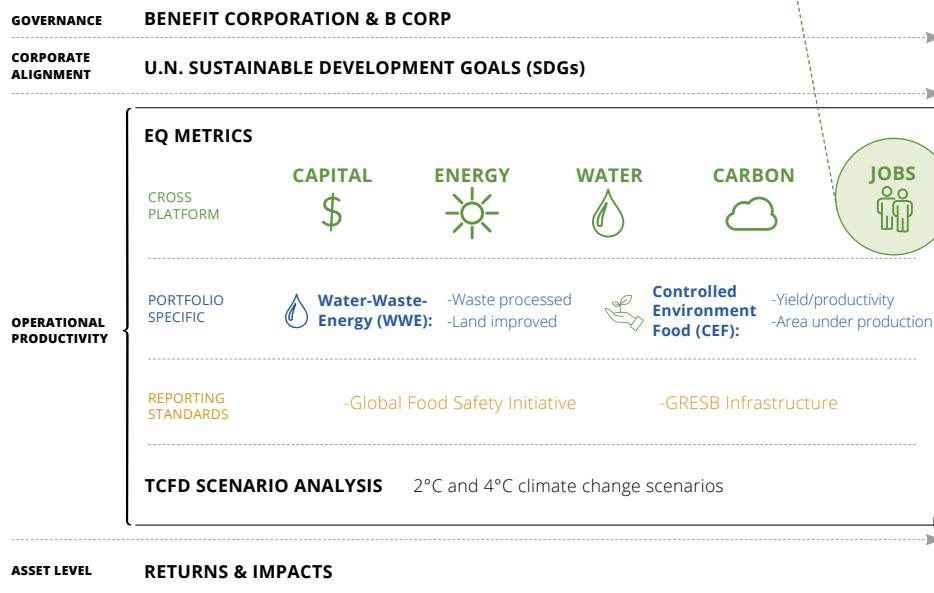
## EQUILIBRIUM PERSPECTIVE

Equilibrium takes a broad view of social impact that includes both up and downstream activities associated with its real assets. We view social equity in three contexts:

1. Employee well-being
2. Sustainable, resilient communities
3. Accessible, healthy products

We aim to measure our impact, link performance to enterprise value, and work toward monetizing social externalities. The elements of our **Sustainability Framework 2.1** were intentionally chosen to support this reporting, notably the Benefit Corporation and B Corp designations, internal productivity metrics, and asset-level return calculations.

## SUSTAINABILITY FRAMEWORK



Even with this Framework, reporting on social metrics that are demonstrably additive is a messy process. For social impact reporting to play a larger role in risk management, operating efficiency, and growth, we need to track relevant indicators across supply chains, worker categories, and geographies.

In some respects, this mirrors challenges faced in the pursuit of another key Equilibrium 2021 sustainability goal – enhanced carbon accounting that extends to a Scope 3 inventory of emissions resulting from our activity, but not from sources we control.

## PEOPLE METRICS



- LIVING WAGE
- TURNOVER/TENURE
- ABSENTEEISM
- HEALTHCARE
- MARKET ACCESS
- HEALTHY PRODUCTS



As an investor in specialized real assets in which scale is a key factor, Equilibrium has a much larger stake in the productive success of facility operations that would be the case for a traditional commercial landlord. Values drive value, and ensuring that operating partners share our values is part of our commitment to financial success.



### CONTROLLED ENVIRONMENT FOODS (CEF):

Clear employee benefits exist within Equilibrium's greenhouse facilities, in the form of higher quality jobs and work environments relative to field production. We also see social benefits flowing to consumers, in the form of access to affordable, safe, nutritious food products.



### WATER-WASTE-ENERGY (WWE):

In addition to the obvious benefits of on-site water and waste treatment, Equilibrium's recycling and waste-to-energy projects allow communities benefit from cleaner air, better soil, and less stressed municipal infrastructure. Accessibility is also a key social feature of this investment strategy, which gives farmers the scale needed to avail themselves of carbon credit markets.

### EQUILIBRIUM LIVING WAGE STANDARD

Equilibrium is implementing a cross-platform Living Wage metric as one indicator of social impact performance. In ensuring that benefits-adjusted wages exceed a third-party, geographically specific determination of earnings required to meet a family's basic needs, we demonstrate positive human capital impacts vs. counterfactual scenarios (e.g., field farming pay).<sup>1</sup> We are also proponents of the Harvard Business School Impact-Weighted Accounts initiative's view that employee expenditures (such as the payment of a living wage) should be viewed as investments that lead to future profitability, not merely as expenses.<sup>2</sup>



Benefits-adjusted wages must exceed earnings required to meet a family's basic needs.

### SOCIAL REPORTING IMPLICATIONS

Equilibrium's social impact reporting aspires to define material metrics, set targets, and draw clear links to long-term, risk adjusted returns. Fair compensation as measured by our Living Wage metric is one component of this ongoing initiative. More generally, our leadership, accountability structures, and company culture support human considerations along our entire value chain.

Looking forward, positive social impacts will differentiate investment strategies and products from those involving less equitable and healthy ways of doing business. We are under no illusion; however, that reporting is simple or clear-cut. Transparency will expose tough trade-offs between sustainability goals; for example, higher wages increase direct short term operating costs and could negatively affect the affordability and accessibility of end products. Equilibrium's unique ability to drive scale and value is critical in balancing social and environmental outcomes and creating meaningful impact across all of our portfolio strategies.

<sup>1</sup> MIT Living Wage Calculator

<sup>2</sup> <https://www.hbs.edu/impact-weighted-accounts/Pages/default.aspx>

## PARTNER VIEWPOINTS

**Kevin Doran, CEO of leading North American greenhouse grower, Houwelings Group,** is emphatic about the link between a motivated, happy workforce and productivity. Rather than focus on total employment, Houwelings aims for a win-win strategy of fewer people and higher incomes, citing the fact that “one trained, efficient person can do the work of five untrained, unmotivated ones.” Livable wages, attractive benefits, and numerous small-but-impactful gestures of appreciation result in productivity gains and employee retention, the latter being particularly key in the highly competitive agriculture sector. The pandemic has further highlighted the essential nature of farm labor and Houwelings plans to offer free, on-site vaccinations as part of a continued effort to provide health coverage to all employees.

*“One trained, efficient person can do the work of five untrained, unmotivated ones.”*



**Rocio Campos, Director de Capital Humano for Finka,** has a passion for people that transcends industry boundaries, and which is particularly important to this Fair Trade Certified, Mexico-based advanced greenhouse operator. With a view to improving the business’ bottom line via reduced absenteeism and turnover, Ms. Campos is implementing numerous programs designed to “align people planning with real people”. These include health-related campaigns, transportation services, and amenities like a cafeteria and planned childcare facility. Finka’s attention to worker morale is especially notable. Cross-training and formal evaluations provide attractive career paths and better leaders. Simple-but-important changes to job titles, e.g., from “grower’s assistant” to “team organizer”, foster a team mentality, while the addition of name tags vs. numbers to the uniforms of tenured employees provides individual empowerment. Ultimately, Finka’s highly committed management team believes they can relate these efforts directly to operational targets and investor returns.

**Sarah Hrywnak, Asset Manager for Blackwood Blends,** is a strong proponent of diversity and inclusion in an industry – waste management – not historically known for either. Blackwood Blends diverts sludge from landfills to create soil amendments for fertilizer and land reclamation. The environmental benefits of this process are clear; what may be less obvious are the positive impacts of Blackwood’s attention to social metrics. The demographic mix of Ms. Hrywnak’s team – notably a 50-50 male-female split and range of ages – fosters collaborative, innovative problem-solving and drives real operational value. Cross-training, health insurance, paid time off, and flexible scheduling results in highly invested workers. Compensation for both full- and part-time employees exceeds Schuylkill County’s living wage and contributes to retention, which is particularly important in a dirty, smelly industry. More broadly, Blackwood provides social benefits to the surrounding community in the form of indirect employment and spending benefits, e.g., on repairs, fuel purchases, haulers, and township royalties, as well as access to near zero cost soil amendments for local farmers.

*The demographic mix fosters collaborative, innovative problem-solving and drives real operational value.*



*Team mentality and individual empowerment relate directly to operational targets.*

## ABOUT EQUILIBRIUM

**Equilibrium innovates and manages sustainability-driven real asset strategies and funds for institutional investors.**

Sustainability is the strategic long-term management of resources. We believe sustainability drives economic value, portfolio advantage, alpha returns, and intentional positive impact for our environment and community. Each of our real asset investment strategies and portfolios seeks to deliver on these macro-trends and economic advantages.

**We build proprietary Equilibrium real asset strategies in the agriculture and infrastructure sectors:**

We seek to generate institutional quality returns and sustainable alpha through our investment manager-operator teams that combine the asset management capability of sophisticated managers with the on-the-ground experience of world-class operators. Over the long term we believe the manager-operator teaming will deliver both superior risk management and returns.

### AGRICULTURE & FOOD

### CARBON TRANSITION INFRASTRUCTURE

Equilibrium is organized around four functions:

- Innovate unique investment products
- Manage and operate portfolios of productive real assets
- Administer and structure our portfolio to deliver transparency and value
- Raise and scale capital from institutional investors

**With offices in San Francisco, Portland, London, and Singapore, we are able to serve our investors, globally.**

---

## DISCLAIMER AND FORWARD-LOOKING STATEMENTS

This presentation is a summary of research and a developed point of view. It is not an offering or a solicitation of an offer to purchase an interest in any financial product or security. If Equilibrium develops such products, any such offer or solicitation will be made only to qualified investors only by means of a confidential private offering memorandum and related offering materials, and only in those jurisdictions where permitted by law. Such offer or solicitation may only be made by means of delivery of that document which contains important information (including investment objective, policies, risk factors, fees, tax implications, and accredited investor qualifications) relating to such investment product or fund, and if such a product is offered, there is no guarantee that the investment objective will be achieved, nor should past performance of an investment team be construed as an indicator of future performance. Without limitation, this document does not constitute a recommendation to enter into any proposed transaction or investment. You should not construe the contents of this document as legal, tax, investment or other advice.

The information contained in this document is based on material that Equilibrium believes to be reliable. Assumptions, estimates and opinions contained in this document constitute information we received from reliable sources as of the date of the document and are subject to change without notice. Neither Equilibrium nor its affiliates, nor any of their respective officers, directors, employees, agents, or controlling persons, make any representation or warranty, expressed or implied, as to the accuracy or completeness of the information contained in this document, and nothing contained herein is, or shall be relied upon as, a promise or representation, whether as to past or future facts or results. Any market analysis, projections, and similar information, including all statements of opinion and/or belief contained in this document (collectively, "forward looking information"), are subject to inherent uncertainties, contingencies and qualifications and are based on a number of assumptions. Market analysis and other forward-looking information involves significant elements of subjective judgment and analysis that may or may not be correct. Equilibrium Capital Group is not a registered investment advisor and does not provide tax, accounting, or legal advice.