The Social Progress Imperative and Magni Global Asset Management:

Does Combining Their Research Create a Better ESG Model?

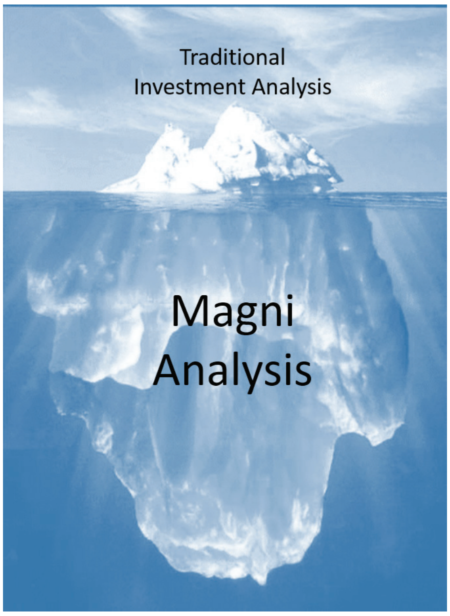
Magni Global Asset Management provides management and advisory services based on the belief that ***Countries Matter™*** when investing internationally and applies its proprietary research-driven investment strategy to create global equity portfolios. As part of its research, Magni ranks the investible countries of the world. When Magni discovered the work of the Social Progress Imperative *(www.socialprogressimperative.org)* there was natural interest in this new and creative approach to country ranking.

Social Progress Intends to Move Beyond GDP

The Social Progress Imperative created their Social Progress Index in 2013 to measure social and environmental performance for every country in the world. Their aim is to provide a framework for government, business and civic leaders to better measure the quality of people's lives. By meeting the needs of their citizens, a country's economic growth should flourish and everyone should benefit. Economic growth without social progress creates risks of discontent and social unrest. The Social Progress Imperative states, ***"We must move beyond Gross Domestic Product (GDP) per capita and make social and environment measurement integral to national performance measurement."*** Their vision is a world in which social progress sits alongside economic prosperity as a measure of a sustainable society.

Materials from the Social Progress Imperative mention moving "beyond GDP". GDP just measures the financial value of the economic output of a country, but does not measure the quality and potential of life. The Social Progress Index is the sum of three dimensions: basic human needs, foundations of wellbeing, and opportunity. The methodology has taken two years to develop receiving input from various scholars and policy experts. It is based around 12 components and 52 indicators of social and environmental outcomes. The four key design principles are:

1. Exclusively social and environmental indicators
2. Outcomes not inputs



3. Actionability
4. Relevance to all countries

There are 133 countries measured and scored by the Social Progress Index and an additional 29 countries that have been measured but not scored as those countries are missing enough indicators so that their scores are incomplete. Their research covers 99% of the world's population.

Importance of Economic Infrastructure

Magni's philosophy is that the economic infrastructure of a country has a large impact on the ability of a society to create wealth. Its research is based on well accepted economic principles and Magni believes that country selection is more important in portfolio construction than individual security selection. Magni developed the Sustainable Wealth Creation (SWC) principles and focuses on these three questions:

1. Do the financial statements accurately reflect the company's position *(sound accounting)*?
2. Do shareholders have protection and adequate controls *(objective and effective government)*?
3. Can company leadership make decisions confidently *(conducive economic infrastructure)*?

The two words that describe Magni's viewpoint are: transparency and honesty. The more transparent and honest a country is with its citizens, businesses, and investors, the more wealth is created in the country.

Magni has over a decade of research covering 12 unique standards and 270 qualitative sovereign factors. Magni has a rigorous and repeatable process for determining country-level adherence to the SWC principles. Upon completion of the qualitative sovereign analysis, Magni uses an objective quantitative conversion to determine a country score *(Magni Country Score)*. Currently Magni scores the 46 countries *(85% of world's market capitalization)* where there is sufficient access to credible data and there exists investment products representative of each country's equity market. Then Magni uses their Country Selection Technique to build portfolios using the Magni Country Scores. These model portfolios have outperformed their benchmarks since the inception in 2003.

Implications for Sustainable Investing

Both Social Progress Imperative and Magni produce information that can be used by investors seeking alignment with their values in addition to prospects for investment returns *(Sustainable Investing or Responsible Investing)*. Sustainable Investing has seen explosive growth over recent years and the trend is accelerating. The Forum for Sustainable and Responsible Investment *(US SIF)* has estimated that sustainable assets in the US at the end of 2013 were $6.57 trillion, which was 18% of all investable assets in the US. There were only $3.74 trillion of sustainable assets at the end of 2011. The Global Sustainable Investment Alliance estimated that global sustainable assets at the end of 2014 were $21.1 trillion, a 61% increase from 2012. This growth reflects improvements made to sustainable offerings, including the increasing use of positive screening, which has been demonstrated to provide better investment results than negative screening. The most widely used investment strategies in Sustainable Investing are based on **ESG: E** for environment, **S** for social, and **G** for governance. Most of the existing ESG investment products focus on screening factors covering E and S.

The same studies that have demonstrated the better investment results from positive screening also identify the strong emphasis on governance in investment portfolios as improving ESG investment performance. So, what about the G?

Understanding G requires more than financial data. While GDP is a measure of output, economic output is an incomplete measure for investment purposes. Governance should measure a country's ability to create an economic, legal, and regulatory environment where output can grow, investment opportunities are attractive, and investor rights are protected. This data is not easy to find and more difficult to quantify in the investment process.

Simply put, the Social Progress Index provides a new level of insight into the E and S, while the Magni Country Scores complement the Social Progress Index by adding a robust G.

Impact on Portfolio Performance

A comparison of country rankings using the Social Progress Index and Magni Country Scores provides insight into their complementary nature. This comparison will focus on the countries in the developed markets and the emerging markets as defined by MSCI. In other words, the 46 countries with the largest equity markets are included.

A little over half of the countries have fairly similar scores when using the two country rankings. For the remaining countries in the comparison, there are major differences in ranking and these differences can have significant implications for both portfolio construction and prospects for returns. For example, New Zealand is considered a country with very strong social progress, while Magni considers its economic infrastructure as average within the developed market. As a result, there is a risk that portfolios built with social progress rankings would allocate too large a position to New Zealand when compared to the prospects for investment returns. Over the last ten years, New Zealand underperformed the benchmark by 99 bps per year *(MSCI New Zealand GR USD vs. MSCI ACWI Ex USA GR USD for a ten year period ending 4/30/15)*.

Conversely, there are eight countries where their economic infrastructure is ranked higher than their social progress. In these countries, there is a risk that portfolios built with social progress rankings would allocate too little to the countries when compared to the prospects for investment returns. Over the last ten years, these eight countries have collectively outperformed the benchmark by 211 bps per year *(Equal weighted portfolio of the eight countries using MSCI performance (Gross Return and USD) for a ten year period ending 4/30/15)*.

There are another eight countries with extremely low rankings on social progress. Given the immense economic disparities across the respective country populations and the meaningful differences in economic infrastructure across the countries, these countries are worth a deeper analysis. In some of these countries, the economic infrastructures are weak *(e.g., China, Russia)*. In others, the economic infrastructures are somewhat strong *(e.g., Mexico, South Africa)* when compared to the countries in the emerging markets. The use of the Social Progress Index to build portfolios would amalgamate these countries in a way that masks important investment information. The countries within this group who have somewhat stronger economic infrastructures outperformed those who had weak economic infrastructures by 279 bps per year *(Equal weighted portfolios of four countries using MSCI performance - Gross Return and USD - for ten year period ending 4/30/15. Returns are annualized)*. This relative performance occurred despite China having one of the weakest economic infrastructures and China being among the best performing emerging markets for the past year *(For the year ending 4/30/15)* .

The Social Progress Imperative has the potential to have significant, positive, and lasting impact on the lives of people around the world. Magni has more than a decade of research on the economic infrastructures of countries. Both the Social Progress Imperative and Magni have a rigorous research process that scores and ranks countries around the world. The Social Progress Imperative focuses on the social and environmental factors and Magni focuses on the governance factors. By combining their research, it is possible to construct a new generation of ESG country portfolios with improved measurements of E, S, and G. Fundamentally, there are two organizations researching and measuring factors to encourage countries to do the right thing and providing the information to invest responsibly without sacrificing the opportunity for return.

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Kurt has more than 35 years of experience in business leadership and strategy. He is a featured speaker and governance expert for the United Nations, World Islamic Banking Conference, and Responsible Finance Institute. Magni Global Asset Management LLC is the leader in country-level research on corporate governance. The Minnesota based research and asset management firm was founded by Dr. Roger Conant, previously the Chief Investment Officer for the St. Paul Companies/Travelers. Magni believes Countries Matter™ when investing internationally and scores countries on their ability to provide an environment conducive to effective corporate governance. Kurt has launched five companies with one of them being sold to McKinsey & Company. He has held leadership positions with Thomson Reuters, IBM, Reynolds & Reynolds, and Ecolab. He has an engineering degree from Harvey Mudd College and an MBA from the University of Chicago.