Country-Level Governance:

Next Generation of Responsible Investing in Constructing International Portfolios

Part 1: Governance is an integral part of Responsible Investing

Part 2: Measuring governance at the country level is important

Part 3: Constructing portfolios using country level governance

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EXECUTIVE SUMMARY

Responsible Investing has made significant progress especially since the founding of the United Nations Principles of Responsible Investing. While environmental and social considerations are both important, studies have shown that governance is very critical to portfolio performance. The use of more recent governance metrics combined with best practices in portfolio construction are beginning to produce portfolios demonstrating outperformance versus traditional portfolios. Perhaps not surprisingly, research is now showing that good governance leads to better environmental and social performance.

Until recently, Responsible Investing portfolios relied on the available *company*-level governance metrics. Studies have shown these metrics are slowly improving over time. Countries have a strong impact on company governance and the impact tends to be in areas of company valuation, including accuracy of financial information, protection of legal rights, and risk. New techniques are now available to measure country-level governance.

For more than a decade portfolios constructed using these techniques have demonstrated significant absolute and risk-adjusted performance compared to relevant benchmarks. As a result, construction of international equity portfolios should start with getting the countries right by applying measures of country-level governance.

In Part 1, we highlight the trend of Responsible Investing and its continued growth throughout the world. Just as more corporations are embracing the need to address sustainability issues as a best business practice that can lead to increased profitability, institutional investors are incorporating Environment, Social, and Governance (ESG) and related screening approaches into the construction of their portfolios. The significant and growing share of funds using Responsible Investing reflects improvements which have been made to the screening approaches and in the information available to make the underlying decisions. The improvements to Responsible Investing are also evident in the changing discussion of performance. A shift from "negative screening" that avoids specific non-ESG companies to "positive screening" that overweights ESG-aligned opportunities has begun to demonstrate strong performance. When considering the various approaches to screening companies, an emphasis on corporate governance appears to be very important in achieving Responsible Investing portfolios which outperform.

In Part 2, we observe that company governance is heavily influenced by the legal, regulatory, accounting, and economic systems of a country. These country-level considerations have a significant impact on company valuation. Despite the value of country-level governance information, equity analysts have not incorporated this investment information into their research process. They have been impeded by the obstacles involving its collection, standardization, and use. To make such information viable, analysts require access to methods that support the qualitative analysis of sovereign factors. They also need procedures for standardizing the analytical results.

Sustainable Wealth Creation principles, which are based on widely-accepted economic concepts, overcome previous obstacles to measuring country-level governance. When combined with a new research process based on observable behavior, country-level governance can be measured in an actionable, objective, and repeatable manner.

Finally, in Part 3, we discuss how countries matter, including the country exchange where a company is listed. The Country Selection Technique can be used to build portfolios with country level ETFs. Portfolios built using the Country Selection Technique have delivered outperformance for more than a decade.

In addition, the Country Selection Technique can be used as an overlay to determine the country weightings of an international portfolio where the advisor is buying individual securities. Whether directly used in the construction of portfolios or as an overlay, country-level governance is a powerful and responsible technique of international equity investing.

Part 1 - Governance is an integral part of Responsible Investing

Brief History of Responsible Investing

The origin of Responsible Investing dates as far back as the 1500's. The initial approach was based on religious beliefs and involved a negative screening of companies or industries that conflicted with peoples' values. During the 1920's, typical screens caused consumers and investors to avoid alcohol, tobacco, and gambling-related companies in their portfolios; in the 1960's and 1970's it was weapons and nuclear power stocks; and in the 1980's and 1990's it was avoiding South African investment because of apartheid. In the world of investing, this values-based approach became known in the 1960's as Socially Responsible Investing (SRI). SRI was applied to any values-based or exclusionary approach with regards to social, ethical or environmental issues. In the late 1990's, SRI began to shift away from solely being values driven to incorporate other factors in a decision making process, including environmental, social, and corporate governance. This evolution added a set of positive screens in addition to the negative screens in an effort to maximize the investment return of a socially responsible portfolio.

In the early 2000's, based on the perceived underperformance of SRI, there was a new emphasis on risk and return. In 2003 the United Nations Environment Programme (UNEP) Finance Initiative formed a task force to research the effect of environmental, social and corporate governance (ESG) issues on security valuation. After finding that these issues *positively* affected long-term shareholder value, the UN Secretary General Kofi Annan launched the six Principles of Responsible Investing (PRI) in 2006. This initiative helped give rise to the term, Responsible Investing, which describes the process by which risk and return investors use ESG factors in their investment process.

Prior to these most recent advancements, Corporate Social Responsibility ("CSR") was introduced during the 1950's, and over time became an accepted set of best practices for companies. As CSR grew and evolved there was an increasing overlap between CSR and the governance portion of ESG.

This whitepaper uses Responsible Investing as an umbrella to describe all of these efforts. Responsible Investing has evolved significantly and will most certainly continue to evolve. The associated investment frameworks will continue to improve and to incorporate new societal priorities. With each passing year there is greater insight into the ability of Responsible Investing to deliver performance comparable to, or perhaps even better than, traditional approaches.

Recent Improvements

As mentioned, many improvements have been incorporated into Responsible Investing over the decades. Initially, there had been a focus on negative screening to produce ethical portfolios. In a whitepaper by Deutsche Bank[1], containing a review of SRI studies where negative screening is typically used, the authors found only 42% of the studies showed high-scoring firms in terms of SRI criteria as exhibiting outperformance. At the fund level, the whitepaper found mixed results as well with 88% of studies that reviewed SRI-based funds showing neutral or mixed results when compared to non-SRI based funds.

Increasingly, there has been a shift from negative screening to positive screening (i.e., selection of securities based on their adherence to a Responsible Investing framework). ESG has frameworks that enable investors to build portfolios based on positive screening. The whitepaper found overwhelming academic evidence that firms with high ratings for ESG have a lower cost of capital.

Firm Value and Governance

The Deutsche Bank whitepaper also documented better performance from positive screening as 89% of studies showed firms with high ratings for ESG exhibiting market outperformance. Within ESG ratings, governance had the strongest influence on financial performance[2]. Another study showed a strong and positive relationship between corporate governance and firm valuation[3]. Specifically, strong shareholder rights have been found to increase firm value[4]. Firms can protect shareholder rights and receive the benefits of increased firm value through board and audit committee independence[5]. Another study showed that firms that consider adherence to Corporate Social Responsibility (CSR) as important tend to have better corporate governance and this CSR engagement has a strong positive impact on firm value[6].

There are some studies that do not show as strong a link between corporate governance and market-based financial outperformance. One study found none of the corporate governance measures as predictive of future stock performance, though it did find a positive impact on performance management of line executives from board independence

[1] "Sustainable Investing: Establishing Long-Term Value and Performance", DB Climate Change Advisors of Deutsche Bank Group, June 2012, page 8
[2] Ibid, page 54
[3] "Corporate governance and firm value: International evidence", Ammann, Oesch, & Schmid, *Journal of Empirical Finance*, 2010
[4] "Corporate governance and equity prices", Gompers, Ishii, & Metrick, *Quarterly Journal of Economics*, 2003
[5] "Do US firms have the best corporate governance? A cross-country examination of the relation between corporate governance and shareholder wealth", Aggarwal, Erel, Stulz, & Williamson, *National Bureau of Economic Research (NBER) Finance Working Paper*, 2007
[6] "Corporate Governance and Firm Value: The Impact of Corporate Social Responsibility", Harjoto, M. & Jo H., *Journal of Business Ethics*, 2011

and board incentives[7]. Another four studies found corporate governance had a positive link to accounting-based financial outperformance[8]. The Deutsche Bank whitepaper only listed one study where corporate governance had a negative link to accounting-based financial outperformance[9].

Stronger emphasis on the "G"

The "G" in ESG has received less attention than the "E" and the "S", yet it is more correlated with investment performance.

In a study with one of the largest Responsible Investing datasets,[10] State Street Global Advisors concluded that, despite the inconsistent predictive power of ESG ratings by commercial providers, the predictive power grew over time. The continued improvements and refinements to Responsible Investing frameworks could well be the source of the greater predictive power. In the not too distant future, Responsible Investing could become a proven source of alpha.

A clear majority of the studies showed a benefit in selecting investment opportunities based on a company's positive adherence to Responsible Investing. Sometimes the benefit was indirect as the adherence is linked to improved operating performance of the company. These improvements should lead to subsequent increases in firm value and hence returns for shareholders.

Implications for Portfolio Construction

MSCI published an insightful study on the implications for portfolio construction where they examined three different construction techniques[11]. A portfolio based on excluding companies with low ESG ratings (i.e., negative screening) produced negative active returns; though through some optimization of the portfolio, a small positive active return was produced. A second portfolio weighted the stocks within the portfolio based on their ESG rating (i.e., overweight high ratings and underweight low ratings). This second portfolio tended to outperform in defensive ("flight to quality") periods yet underperformed in "risk on" markets. The third portfolio overweighted companies that increased their ESG ratings, while underweighting companies that decreased their ESG

[7] "Corporate Governance and Firm Performance", Bhagat, Bolton, *Journal of Corporate Finance*, 2008
[8] "Corporate governance, corporate social responsibility, and corporate performance", Huang, C., *Journal of Management and Operation*, 2010; "Corporate Governance and Firm Performance", Bhagat, Bolton, *Journal of Corporate Finance*, 2008; Corporate Governance, Chief Executive Officer Compensation, and Firm Performance, Core, Holthausen & Larcker, *Journal of Financial Economics 51*:371-406, 1990; Cremers, Martijn K. J. and Vinay b. Nair. (2005) "Governance mechanisms and equity prices". Journal of Finance 6, 2859-2894.;
[9] "Empirical evidence on corporate governance in Europe", Bauer, Gunster, & Otten, *Journal of Asset Management*, 2003
[10] "A Comprehensive Analysis of the Relationship between ESG and Investment Returns", Kennedy, Whiteoak & Ye, State Street Global Advisors, 2008
[11] "Optimizing Environmental, Social, and Governance Factors in Portfolio Construction: An Analysis of Three ESG-tilted Strategies", Nagy, Cogan, & Sinnreich, MSCI Applied Research, 2013

ratings. The third portfolio delivered better risk-adjusted performance than the other portfolios and led to the conclusion that moderate benchmark outperformance can be achieved using ESG factors.

When building portfolios using Responsible Investing, the best practices appear to be:

- Positively screen for adherence to frameworks;
- Emphasize strong corporate governance within the frameworks; and
- Actively manage the portfolio by rewarding improvements.

PART 2- MEASURING GOVERNANCE AT THE COUNTRY LEVEL IS IMPORTANT

Country-Level Information Impacts Company Governance

Fortunately, companies do tend to follow the legal, regulatory, and reporting requirements of the country where they are listed. These requirements determine key considerations for the value of a company's equity. Some of the most important considerations include:

- Do countries differ in the degree to which they require that corporate financial statements accurately reflect the true performance of the company? Are some country's standards so lax as to render useless financial statements issued by their businesses? To the extent a country is lax in requiring accurate and uniform financials, security analysis is less meaningful and stock valuations of that country's companies are more speculative.
- Do shareholders in some countries benefit more from the success of their holdings than shareholders in other countries? Or do insiders capture most of the benefits? Many countries have impediments to investors recovering the returns to which they are entitled, including corruption, a lack of legal shareholder protections, government sponsored monopolies extracting value from companies, and a court system unresponsive to shareholder interests.
- Can investors and company managements rely upon governments to enforce a culture of clarity and transparency so that investors and company management can deploy capital efficiently? If a country's fiscal and monetary policy environment is opaque, unstable, and/or susceptible to corruption, business investment is more risky. The management of a company in such a country is less likely to invest in otherwise attractive projects as it will perceive that uncertain knowledge renders the risks as excessive. Since wealth is created by deploying capital on attractive projects, less wealth is created and that country's economic growth is stifled.

Therefore, governance can and should be measured at a country level. Further, understanding corporate governance at a country level is a better way to measure the "G" in ESG. This same measure can be a leading indicator of future environment and social improvements. *Accordingly*, professionals with Responsible Investing portfolios should incorporate this measure into their strategies.

Measuring Governance by Country

Unfortunately, the available information about country-level governance has not been standardized and is inherently qualitative. Up until now, most governance information is available at a *company* level and it typically incorporates stakeholder, corporate social responsibility, or similar analysis.

Non-governmental organizations perform *substantial* and important research on countries, including economic statistics (e.g., GDP, GDP per capita, trade balances) and social welfare (e.g., child labor, environmental quality). But such research does not provide insight into the legal, regulatory, and economic infrastructure most conducive to good corporate governance. The information needs to be placed into frameworks yielding clear overall pictures of each country's environment for high-quality corporate governance; that is, frameworks that yield clear overall pictures where countries can be compared on an "apples to apples" basis. If it were easily accomplished, analysts would already access such information.

Open, Honest, Transparent Behavior must be Evident

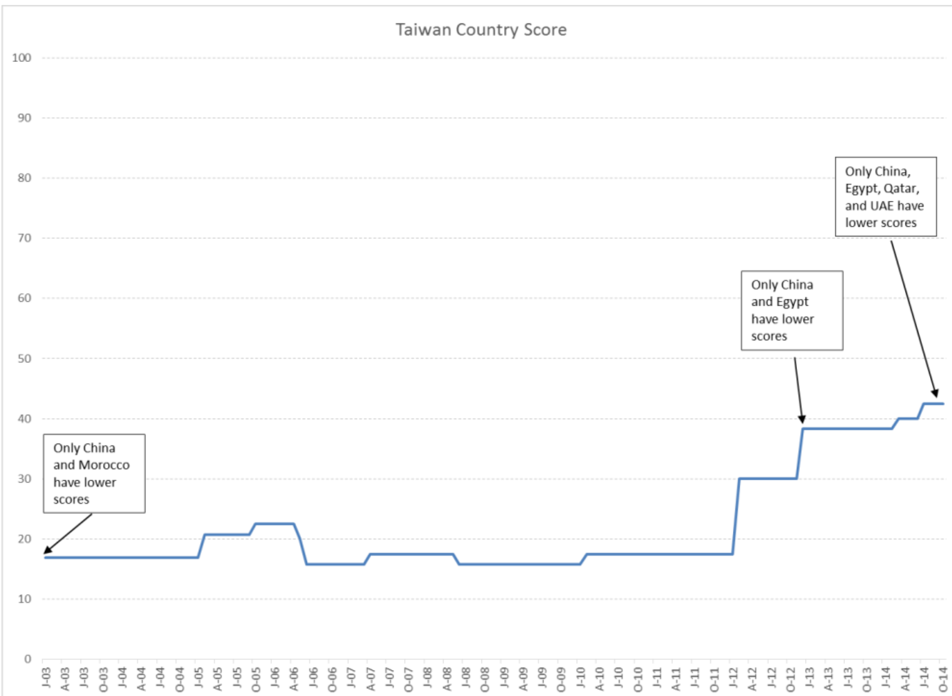
Countries and companies say a lot of things. Speeches can be written by great speechwriters. Slick ads and marketing pieces can be created. However, understanding governance is about measuring behavior; specifically, measuring *open, honest, and transparent* behavior. An approach to performing such measurement is created when:

1. Behavior is measured instead of intent
2. Public information can be used to measure behavior as such information is an indication of transparency, while also helping to control for information bias (skewed measurements where a subset of the applicable investment universe is over analyzed and the rest under analyzed)
3. Accuracy is emphasized over precision (i.e., better to be generally right than to measure unimportant differences precisely)

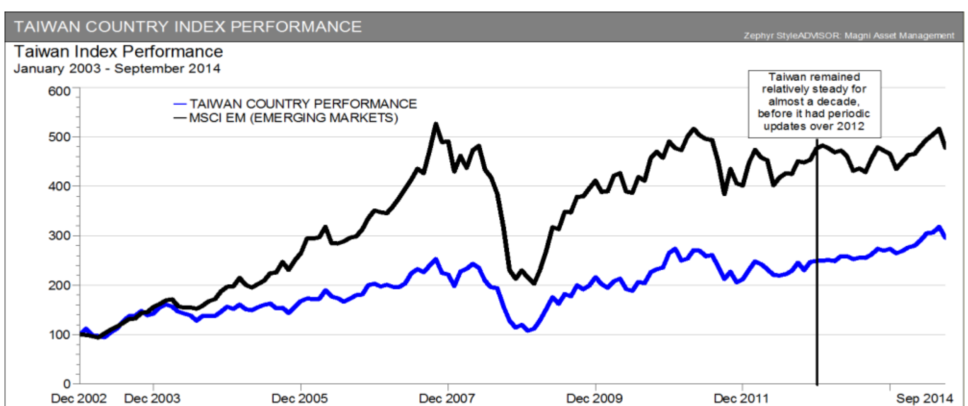
This approach looks beyond the laws on the books and political speeches. It measures the extent to which the people, businesses, and government organizations adhere to good governance. By looking at behavior, the actual level of adherence can be objectively assessed. The use of public information enables widespread and overlapping assessments which in turn lead to more uniform and more complete understanding of the realities in a country. Lastly, a focus on major differences (e.g., "intent declared" to "enacted" to "adherence in progress" to "full adherence") as opposed to slight variations enables accuracy. Countries with open, honest, and transparent adherence to good governance receive high scores.

Example of Country-Level Governance Assessment: Taiwan

Even as a country takes the actions required to improve their country score, if they are not improving as rapidly as other countries, then their relative rank will not improve. One country where that has happened is Taiwan. Taiwan is the third largest equity market in the Emerging Markets. Despite its large equity market and substantial economic success, the country has not scored very well from a Responsible Investing perspective. The chart at the left shows Taiwan's country score over time. Even though its score has more than doubled it remains one of the lowest ranked Emerging Markets country. It has consistently ranked better than China, while passing Egypt by the beginning of 2013. It is also ranked better than countries that have moved between Emerging and Frontier Market status (e.g., Morocco, Qatar, and UAE).



In addition to having a low country score, Taiwan has not been a particularly attractive equity market. The chart on the right shows the performance of the Taiwan equity market (in blue) relative to the Emerging Markets index (in black). Taiwan annually underperformed by more than 450 bps, while providing slightly greater risk (as measured by standard deviation)



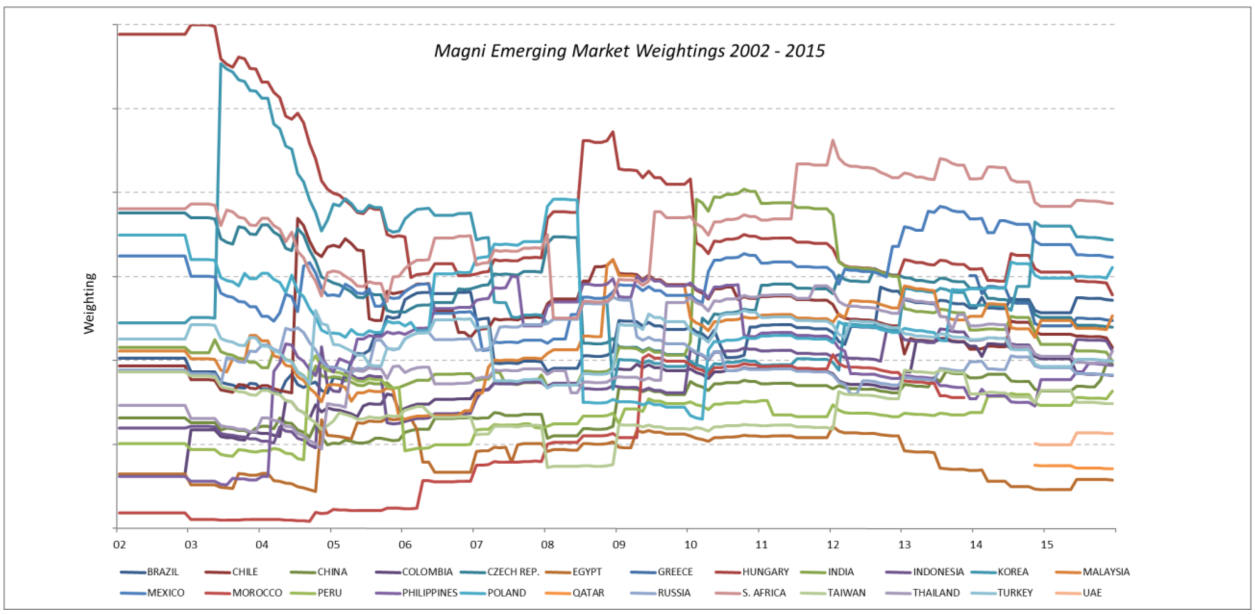
January 2003 - September 2014: Summary Statistics

	Annualized Return (%)	Cumulative Return (%)	Standard Deviation	Cumulative Excess Return (%)	Sharpe Ratio	Information Ratio	Tracking Error
TAIWAN COUNTRY PERFORMANCE	9.68%	196.03%	23.33%	-181.91%	0.35	-0.33	13.89%
MSCI EM (EMERGING MARKETS)	14.24%	377.94%	22.84%	0.00%	0.56	0.00	0.00%

than the Emerging Markets benchmark. Conversely, following the period of rapid upgrades in 2012 Taiwan has outperformed the Emerging Markets benchmark by over 18% cumulatively with lower volatility.

Countries Matter™: Considerations Vary Significantly Over Time

Governance changes at a faster pace than many expect. While the day-to-day changes can be hard to observe, over a couple of months and especially over a small number of years, meaningful changes can take place and those changes can have a material impact on the relative attractiveness of a country. As illustrated by the nearby graph of weightings, over a multi-year timeframe, governance in countries has changed significantly[12]. Since country-level governance varies over time, countries need to be continuously monitored to gain timely insights when making investment decisions.



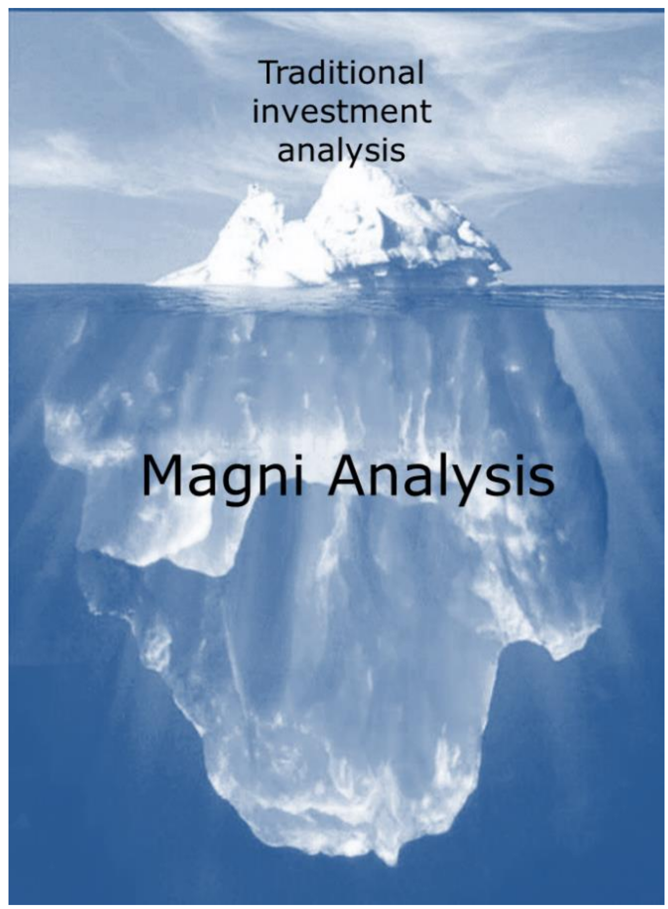
[12] Relative weightings of investible countries from country-level portfolios that are derived from a country's adherence to Sustainable Wealth Creation principles, Magni Global Asset Management LLC, www.magniglobal.com.

PART 3- CONSTRUCTING PORTFOLIOS USING COUNTRY LEVEL GOVERNANCE

A characteristic of most active and passive approaches to portfolio construction is that they ignore the fact that each country has a unique legal, regulatory, and economic infrastructure. The resulting differences in individual country economies have implications for equity valuation. There must be a way to incorporate these differences into investment processes.

Traditional Investment Analysis

To raise the standards for analysts in financial services, the CFA Institute[13] created certification programs focused on quantitative methods for transforming financial information into metrics suitable for building portfolios.[14] Investment analysis involves the incorporation of financial information, such as EPS, cash flow, revenue growth, and profit margins, into financial projections. Only this easily available information that can ultimately be transformed into a financial value has an impact on the end result of the model. While those efforts are important, the very structure of the approach, the scope of the information incorporated into the models and the need for quantitative research lead to the exclusion of other potentially valuable information.



An iceberg is a metaphor for traditional investment analysis regarding international equities. Most international analyses parallel domestic analyses by focusing on the traditional metrics that are akin to the visible part of an iceberg. The hidden information about country governance is like the submerged portion of an iceberg. It is key to success, but not readily discovered.

[13] See www.cfainstitute.org
[14] See www.cfainstitute.org/learning/tools/gbik/Pages/index.aspx

Sustainable Wealth Creation Principles to Rate Countries

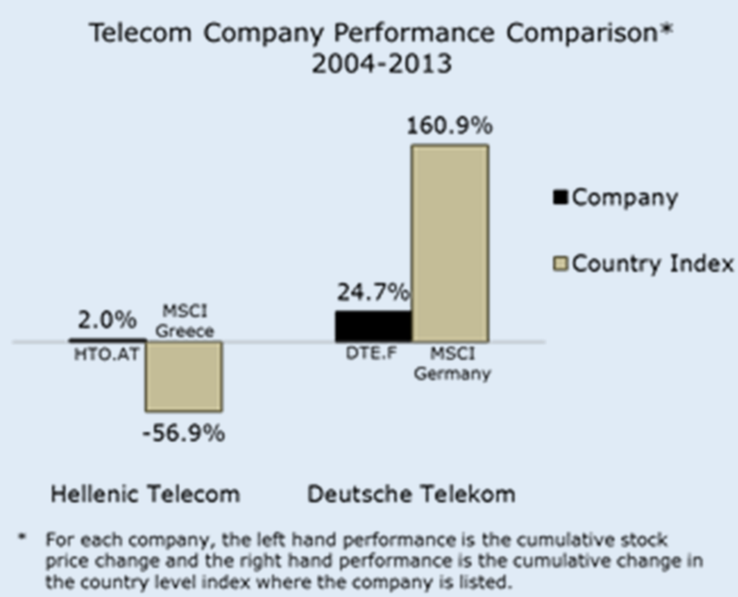
At times, capitalism gets a bad reputation. Businesses, powerful individuals, and governments can collude for the benefit of the few at the expense of the many. This collusion is often called crony capitalism. Crony capitalism is more prevalent and easier to hide in countries with opaque governance.

Good country-level governance involves creating legal, regulatory, and reporting requirements in a country where transparency limits the opportunities for collusion. Countries with good transparency have an easier time being honest. In transparent countries, the business environments tend to be stronger, while the economies tend to grow more rapidly and the wealth created by the growth tends to be spread more inclusively.

Sustainable Wealth Creation[15] (SWC) principles are based on widely accepted economic concepts on transparency in governance and the conditions for rapid, inclusive growth. Countries that receive high scores according to the SWC are required to have more than strong intent and/or rules; there must be evidence that the companies within the country adopt the intended behavior. Further, high-scoring countries also have healthy economic infrastructures where investors are more likely to consider Responsible Investing important, thus creating demand for continued improvement by the companies within the country.

THE COUNTRY WHERE A COMPANY IS LISTED MATTERS

To help understand the importance of the country where a company is listed, two well-established, successful companies in the same industry, but listed on different exchanges are compared. Deutsche Telekom (DTE.F) is listed on the DAX (German), while Hellenic Telecom (HTO.AT) is listed on the Hellenic exchange (Greek). They are in the same business and each has a large market capitalization on its exchange. The chart below graphs the earnings per share of the two companies over the prior decade. Hellenic Telecom generated more total profits and delivered more consistent profits over the time period. Based solely on company profitability, Hellenic Telecom would be the better investment.



[15] Sustainable Wealth Creation principles is the name for Magni's codification of widely-accepted economic concepts and their codification in twelve Economic Standards

To convert principles into an objective, repeatable process, SWC is divided into 12 Economic Standards. The Economic Standards are further divided into 280 Qualitative Sovereign Factors. Analysts measure each factor by determining a country's level of intent to abide by each factor plus its ***actual* level of adherence**. To enhance objectivity, the analysts rely when feasible on neutral third-party research analytics. The analysts then convert research insights into investible quantitative scores. A single objective scale is used to facilitate this conversion. The possible scores range from 0 to 10 as listed in the nearby chart. This clear and simple scale makes the research reasonably objective and minimizes distortions attributable to analytical biases.

Magni Economic Standards

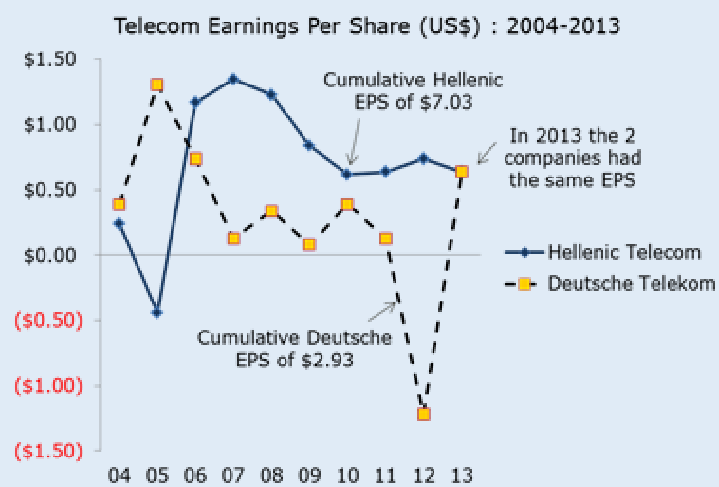
Banking
Securities
Insurance
Corporate Regulations
Fiscal Policy
Monetary Policy
Accounting
Auditing
Payment Systems
Market Integrity
Data Dissemination
Insolvency

Objective scale for quantitative conversion

Score	Definition
0	Insufficient Information
1	No Adherence
3	Intent Declared
6	Enacted
8	Adherence in Progress
10	Full Adherence

THE COUNTRY WHERE A COMPANY IS LISTED MATTERS, CONT.

Despite its lower and more inconsistent profitability, Deutsche Telekom was the better investment. The black bars in the chart on the left show the equity performance over the same time period. Hellenic Telecom significantly outperformed the overall Greek exchange. Conversely, Deutsche Telekom significantly underperformed the overall German exchange. The equity performance of both companies was strongly influenced by the exchange where they are listed. The ETF representing the German exchange had higher performance than either company. Understanding a country and its investment prospects is important. Investing in a country's equity market can be a better choice than investing in specific companies.



Country Selection as part of Building Responsible Portfolios

The Magni team began building and testing its Country Selection Technique in 2001. This technique converts the scores arising from researching each country on its adherence to the Sustainable Wealth Creation principles into initial target weightings. Following adjustments for country-level liquidity and to maximize the prospective ratio of reward to risk as measured by the Sharpe Ratio, the weightings are used to build portfolios.

Using back testing during 2001 and 2002, the team built portfolios applying country-score-driven weightings to the holdings in the applicable country-level indices. The model went live at the beginning of 2003 and has been run through the contemporaneous period. Target weightings were determined at the beginning of each month and rebalanced to the model portfolios at the end of that month.

- The model has been run continuously since the beginning of 2003
- The target weightings were applied before investment results were known
- The model is unchanged over the entire period
- The actual track record closely matches model performance when adjusted for fees and expenses

The Country Selection Technique incorporates the three best practices previously identified:

1. The Country Selection Technique uses positive screening for adherence to the Sustainable Wealth Creation principles.

Social Progress Imperative Measures "E" and "S"

The Social Progress Imperative created the Social Progress Index in 2013. It measures social and environmental performance for every country in the world. Since this index measures E and S and Magni measures G, the two rankings have a complementary nature and could create an interesting composite ESG ranking.

Analysis shows that a little over half 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 measures its corporate governance environment as average within the developed markets. Accordingly, 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.*

* Ten-year period ending 6/30/15.

2. Sustainable Wealth Creation principles are built on well-accepted economic principles with a major focus on corporate governance.
3. Active management occurs through continued country research and systematic rebalancing which combine to reward country-level improvements.

Constructing Responsible Portfolios

The Country Selection Technique can be used to build portfolios with multiple types of country-level securities. Typically, a portfolio is constructed using individual country-level ETFs replicating the respective target country's overall equity exposures with allocation decisions based on the Country Selection Technique. Alternatively, country-level investment products other than market cap weighting could be used. For example, the investment products could be composed of individual companies where the allocations are based on Responsible Investing criteria. In such a portfolio, the Country Selection Technique becomes an overlay where the countries represented in the portfolio are over and underweighted based on their adherence to Sustainable Wealth Creation principles.

The combination of company and country criteria within a Responsible Investing portfolio is truly powerful. The large and growing base of responsible investors could both align their investments with their values and position themselves for attractive returns.

SOCIAL PROGRESS IMPERATIVE MEASURES "E" AND "S", cont.

Conversely, there are eight countries where their corporate governance environment 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**.

There are another eight countries with extremely low rankings on social progress, though their corporate governance environments vary significantly. The use of the Social Progress Index to build portfolios would portray them as very similar when they are quite different, thereby masking important investment information. The countries within this group who have somewhat stronger corporate governance environments outperformed those who had weaker ones***.

** Equal weighted portfolio of the eight countries (Gross Return and USD) for a ten-year period ending 6/30/15.

*** Equal weighted portfolios of four countries (Gross Return and USD) for ten-year period ending 6/30/15.

Live Model Performance[16]

Below is the performance for the Magni Portfolios which all use the Country Selection Technique model.

Magni Global Portfolios	1 year	5 Year	10 year	Since inception
Magni Emerging Markets	-8.50%	-4.09%	4.22%	13.76%
Magni EAFE	-5.50%	2.12%	1.70%	8.13%
Magni ACW ex USA	-6.47%	-0.34%	2.65%	10.32%
**Inception 1/1/03.*				
Annualized performance through March 31, 2016. It is run on a concurrent basis. Returns reflect				
the reinvestment of dividends and other earnings and is presented gross of fees and expenses.				

CONCLUSION

Responsible Investing is playing an even more important role in portfolio construction. Recent improvements have addressed many of the historical performance concerns. Adding country-level considerations to the process of building Responsible Investing portfolios is an important and major improvement.

Sustainable Wealth Creation principles measure the adherence of countries to legal, regulatory, accounting, and economic standards associated with good governance and help create an environment where investors consider Responsible Investing important. The Country Selection Technique is a method for building portfolios using these principles with portfolios using this technique having delivered outperformance for more than a decade.

The Country Selection Technique can be used to build portfolios with country level ETFs. Portfolios built using the Country Selection Technique have delivered outperformance for more than a decade. In addition, the Country Selection Technique can be used as an overlay to determine the country weightings of an international portfolio where the advisor is buying individual securities. Whether directly used in the construction of portfolios or as an overlay, country-level governance in a powerful and responsible technique of international equity investing.

[16] Performance from the live model. Returns reflect the reinvestment of dividends and other earnings, but not trading costs, and are presented on a gross basis.

About Magni

Magni Global Asset Management LLC is the leader in country-level research on corporate governance. Magni developed the Sustainable Wealth Creation principles, based on widely accepted economic concepts, by researching the accounting, legal, regulatory, adjudicative, and economic infrastructures of countries. Its extensive database goes back 15 years and contains analysis on countries across 280 qualitative factors. The Minnesota-based research and asset management firm believes Countries Matter™ when investing internationally; Magni scores and ranks investible countries on their ability to provide an environment conducive to effective corporate governance. Magni uses this information to construct investible portfolios using its proprietary Country Selection Technique. Portfolios built using this process have demonstrated absolute and risk-adjusted outperformance.

For more information, please visit ***www.magniglobal.com*** *and follow us on Twitter@MagniGlobal.*