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A blackboard-style background with several white line-drawn lightbulbs hanging from strings. One lightbulb in the bottom right corner is illuminated with a yellow glow.

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# Lead Sponsor Introduction

Aris Prepoudis, *Chief Executive Officer*, **RobecoSAM**



# Keynote Interview: **GPIF's challenge on the Journey of Stewardship and ESG**

Hiro Mizuno, *Executive Managing Director and Chief Investment Officer, Government Pension Investment Fund (GPIF), Japan* and *Board Director, Principles for Responsible Investment (PRI)*

Interviewed by Hugh Wheelan, *Managing Editor, Responsible Investor*



## **Plenary 1:** Institutional investors always say they are long-term in outlook, so why don't their investment strategies and their relationship with investee companies look that way? The rationale for long-term investment, and what's blocking it?

Nick Moakes, *Managing Partner, Investments*, **Wellcome Trust**

Edward Mason, *Head of Responsible Investment*, **Church Commissioners for England**

Con Keating, *Head of Research*, **BrightonRock Group**

Julia Kochetygova, *Senior ESG Research Analyst*, **Northern Trust**

**Moderator:** Matti Leppälä, *Secretary General, Chief Executive Officer*, **PensionsEurope**

NORTHERN TRUST ASSET MANAGEMENT

# Shift to Long-term Investing

Responsible Investment Europe Conference

London. June 6, 2017

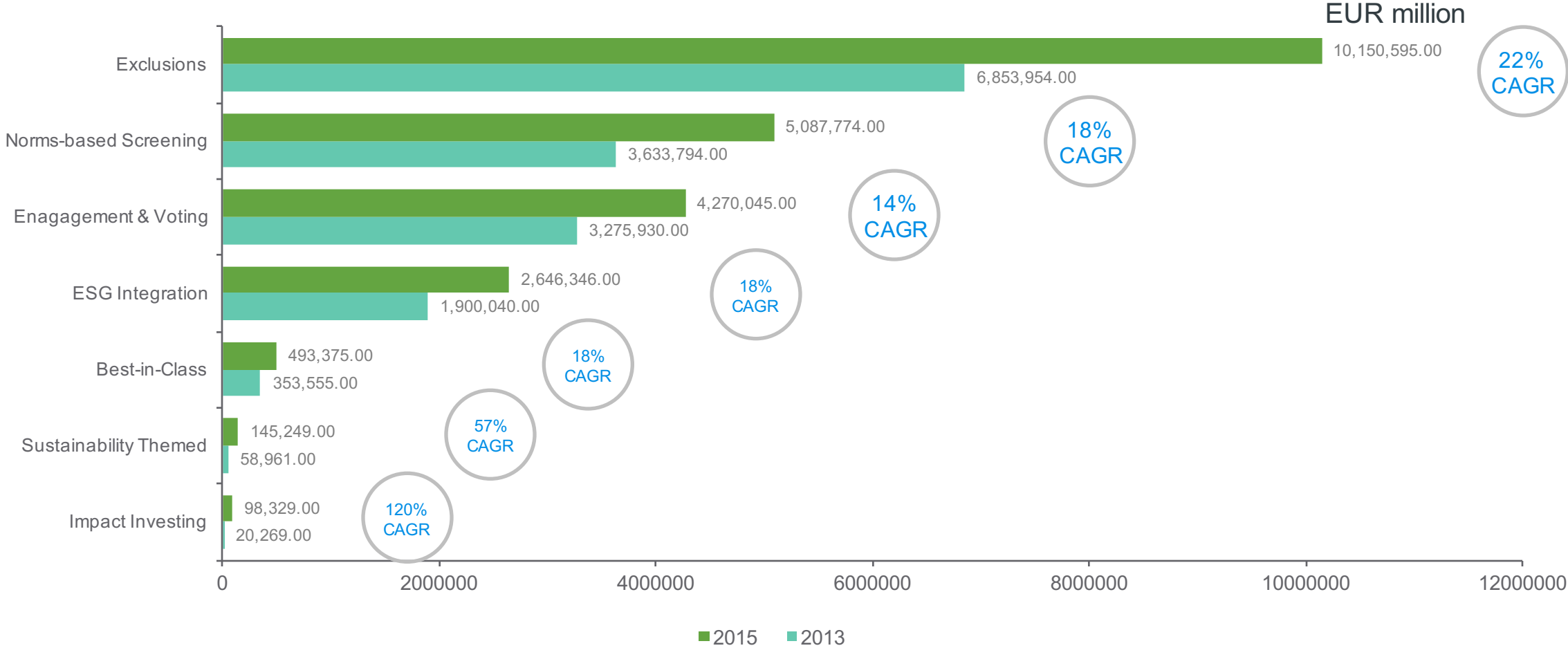
Julia Kochetygova

Senior ESG Research Analyst



# ESG INVESTING IN EUROPE

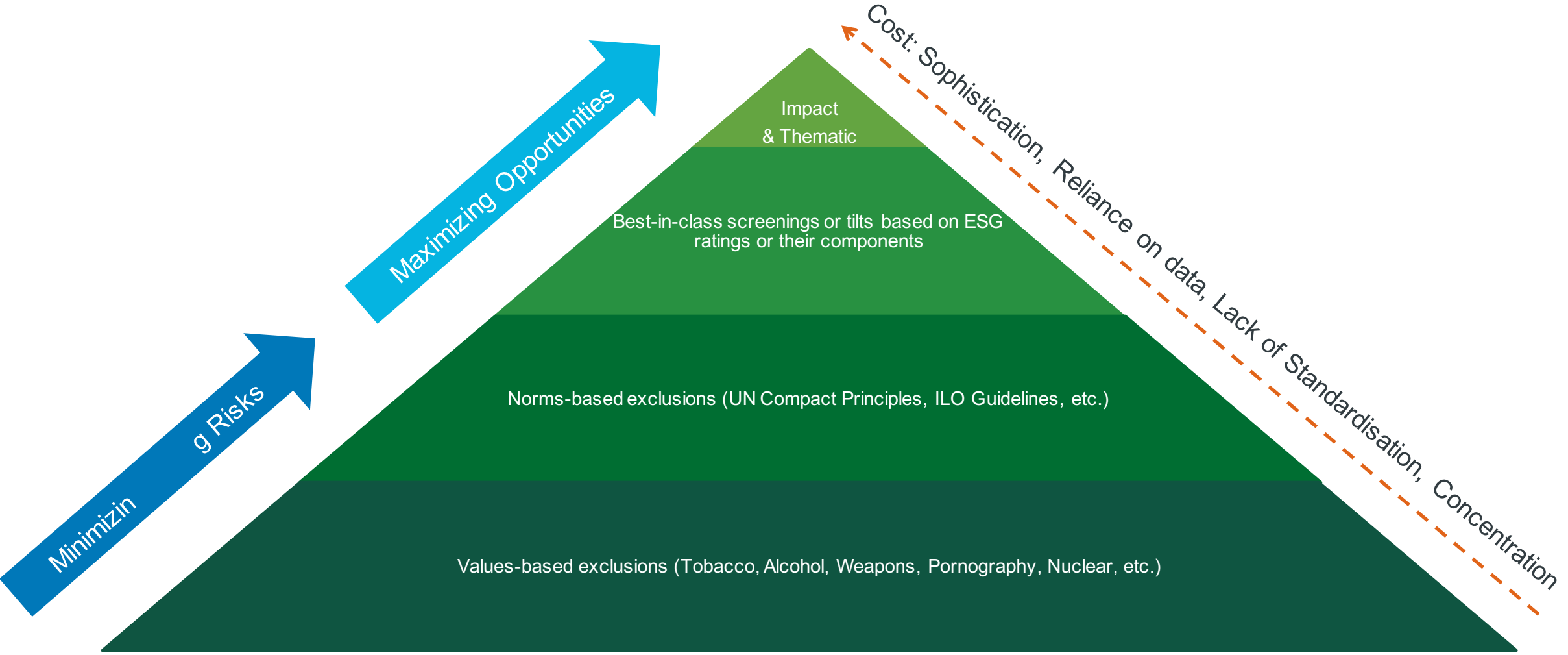
*EuroSIF conducts studies every two or three years, where it asks investors about their sustainable investing strategies and calculates CAGR for different types*



Data from the 2016 EuroSIF report



# THE STRUCTURE OF ESG INVESTMENTS



# HAVING IMPACT WITH ENGAGEMENT

	Climate Change	Pollution & Waste Mngt	Water	Bribery & Corruption	Conduct & Culture	Cyber Security	Diversity	Human Rights	Labour Rights	Supply Chain Mngt
NO POVERTY	■		■					■	■	
ZERO HUNGER	■		■							■
GOOD HEALTH/WELL-BEING	■	□						□		
QUALITY EDUCATION							□	■		
GENDER EQUALITY							□	□	■	
CLEAN WATER/SANITATION	■	□	□							
AFFORDABLE & CLEAN ENERGY	□	■								
DECENT WORK & ECONOMIC GROWTH		□					■	□	□	
INDUSTRY, INNOVATION & INFRASTRUCTURE	■	■	■			■				
REDUCED INEQUALITIES							■	■	■	
SUSTAINABLE CITIES & COMMUNITIES	■	□	■							
RESPONSIBLE CONSUMPTION & PRODUCTION	□	□	■							
CLIMATE ACTION	□									
LIFE BELOW WATER		□								■
LIFE ON LAND	□		■							■
PEACE, JUSTICE & STRONG INSTITUTIONS				□	□	■	■	■		
PARTNERSHIP FOR THE GOALS	■									

□ Direct ■ Indirect

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Hypothetical portfolio data contained herein does not represent the results of an actual investment portfolio but reflects the historical index performance of the strategy described which were selected with the benefit of hindsight. Components of the hypothetical portfolio were selected primarily utilizing actual historic market risk and return data. If the hypothetical portfolio would have been actively managed, it would have been subject to market conditions that could have materially impacted performance and possibly resulted in a significant decline in portfolio value.

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## Plenary 2: The practicality of integrating long-term, sustainable investment signals into investment decisions.

Felix Lanthers, *Head of Equities*, **PGGM**

Remy Briand, *Managing Director & Head of ESG and Real Estate*, **MSCI ESG Research**

Martina Macpherson, *Global Head of ESG Indices Product Management*, **S&P Dow Jones Indices**

Chris Greenwald, *Executive Director, Sustainable and Impact Investing*, **UBS Asset Management**

**Moderator:** Rob Lake, *Principal*, **Rob Lake Advisors**

# Long Term Value Creation - Implications for Indices

RI Europe, 6 June 2017

Presentation by Martina Macpherson, Head of ESG Indices, S&P Dow Jones Indices

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# Focussing Capital on the Long Term

## “Long Term Value Creation Conundrum”

(2013/2016)

- In 2013, 63% of 1,000+ senior execs and board members said the **pressure to generate strong short-term results had increased over the previous five years.**
- 79% felt pressured to **demonstrate strong financial performance over a period of just two years or less.**
- 44% said they use a time horizon of **less than three years for setting strategy.**
- 73% said they should use a **time horizon of more than three years.**
- 86% declared **that using a longer time horizon to make business decisions would positively affect corporate performance in a number of ways,** including strengthening financial returns and increasing innovation.
- 46% said that **the pressure to deliver strong short-term financial performance stemmed from their boards,** while the board members expressed that they were just channelling the short-term pressures that they feel from **institutional investors.**

Source: Bailey, Jonathan and Godsall, Jonathan, “Short-termism: Insights from business leaders, Findings from a global survey of business leaders commissioned by McKinsey & Company and CPP Investment Board,” December 2013.

## vs FCLT Global Initiative

### Five Core Action Areas for Institutional Investors

#### 1. Investment Beliefs

Set the investment philosophy and provide a compass to select investment strategies and navigate short-term turbulence.

#### 2. Risk Appetite Statement

Establish the risk framework by clarifying the asset owner's willingness and ability to prudently take risks and accept uncertainties.

#### 3. Benchmarking Process

Measure the success of investment strategies and their execution over the long term.

#### 4. Evaluations and Incentives

Ensure alignment between asset owner's and asset manager's financial interests toward the long term.

#### 5. Investment Mandates

Define and formalize the portfolio approach and the relationship between asset owner and asset manager.

Source: FCLT. Global (2016);

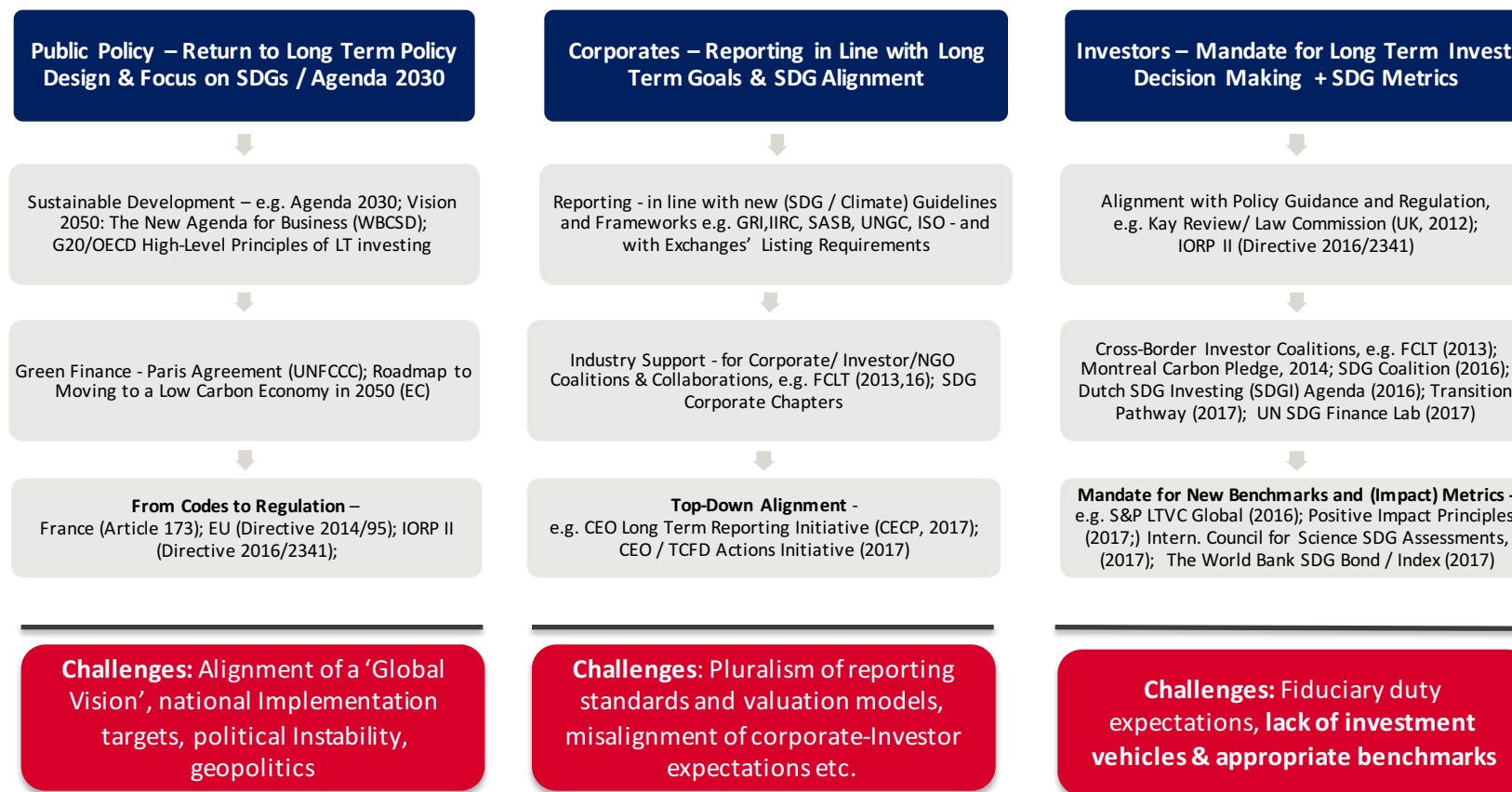
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# Alignment on Goals: E-S-G Mainstreaming



# Implications for Indices - S&P LTVC Global

## S&P Long-Term Value Creation (LTVC) Global Index

### An Integrated Approach to Financial and Extra-Financial Analysis

#### Investment Case

- **Context:** Build an index to encourage corporations to focus on long-term value creation
- **Approach:** Partner with reference asset owner Canada Pension Plan Investment Board (CPPIB) to develop the methodology
- **Output:** Develop a transparent, rules-based family of listed equity indices which reflect key features of Focusing Capital on the Long Term's (FCLT) "Long-Term Portfolio Guide" (2015)
- **Outcome:** Equity indices with a unique "vintage year" approach to long-term holding combined with appropriate diversification and scalability; index constituents demonstrate and are weighted according to operational excellence and long-term business viability

#### Process

##### 1. Constituent Selection:

Selects the **top 50% of stocks** based on a combined **S&P Quality Score** and **RobecoSAM Economic Dimension Score**.

**1845** companies eligible with combined scores  
**450** companies fit all criteria at launch  
**150** companies selected for \* 2016 vintage\*

Stocks remain in the index for **3 years**.

##### 2. Constituent Weighting:

In each vintage, stocks are weighted by their **combined score**.

**Year Prior (t-2) Vintage** + **Prior Year (t-1) Vintage** + **Current Year (t) Vintage**

**Vintages weighted equally at reconstitution**

The index is **reconstituted annually**.

#### Quantitative Metrics

**S&P Quality Score**, designed to measure long-term **operational excellence**:

- **Profitability Generation:** Captured by return-on-equity
- **Earnings Quality:** Captured by accruals ratio
- **Financial Robustness:** Captured by financial leverage over an average **time horizon of 3-5 years**.

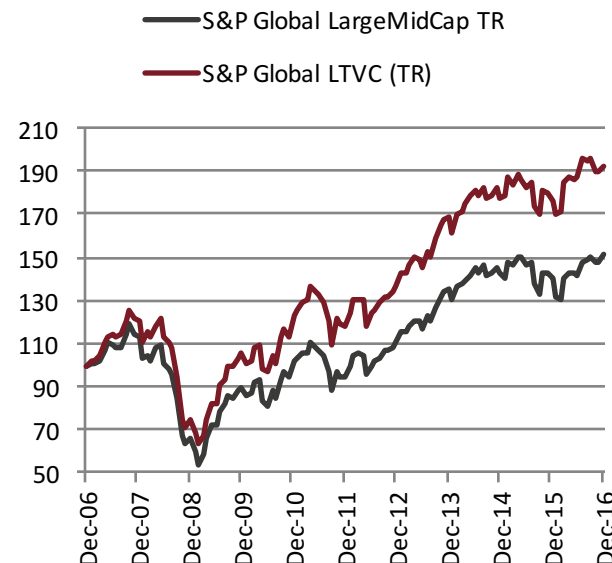
#### Qualitative Metrics

**RobecoSAM's Economic Dimension Score**, designed to measure **business viability**:

- **Corporate Governance**
- **Supply Chain Management**
- **Risk & Crisis Management**
- **Tax Strategy**

**3025 companies** surveyed from **40 countries**.

## 10-Year Back-tested Historical Performance as of Dec 31, 2016



Total Return	Net Total Return	Price Return
USD	USD	USD
SPLTVCUT	SPLTVCUN	SPLTVCUP

Source: S&P Dow Jones Indices. Data as of December 31, 2016. Charts are provided for illustrative purposes.

Past performance is no guarantee of future results. This chart may reflect hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance. Permission to reprint or distribute any content from this presentation requires the written approval of S&P Dow Jones Indices

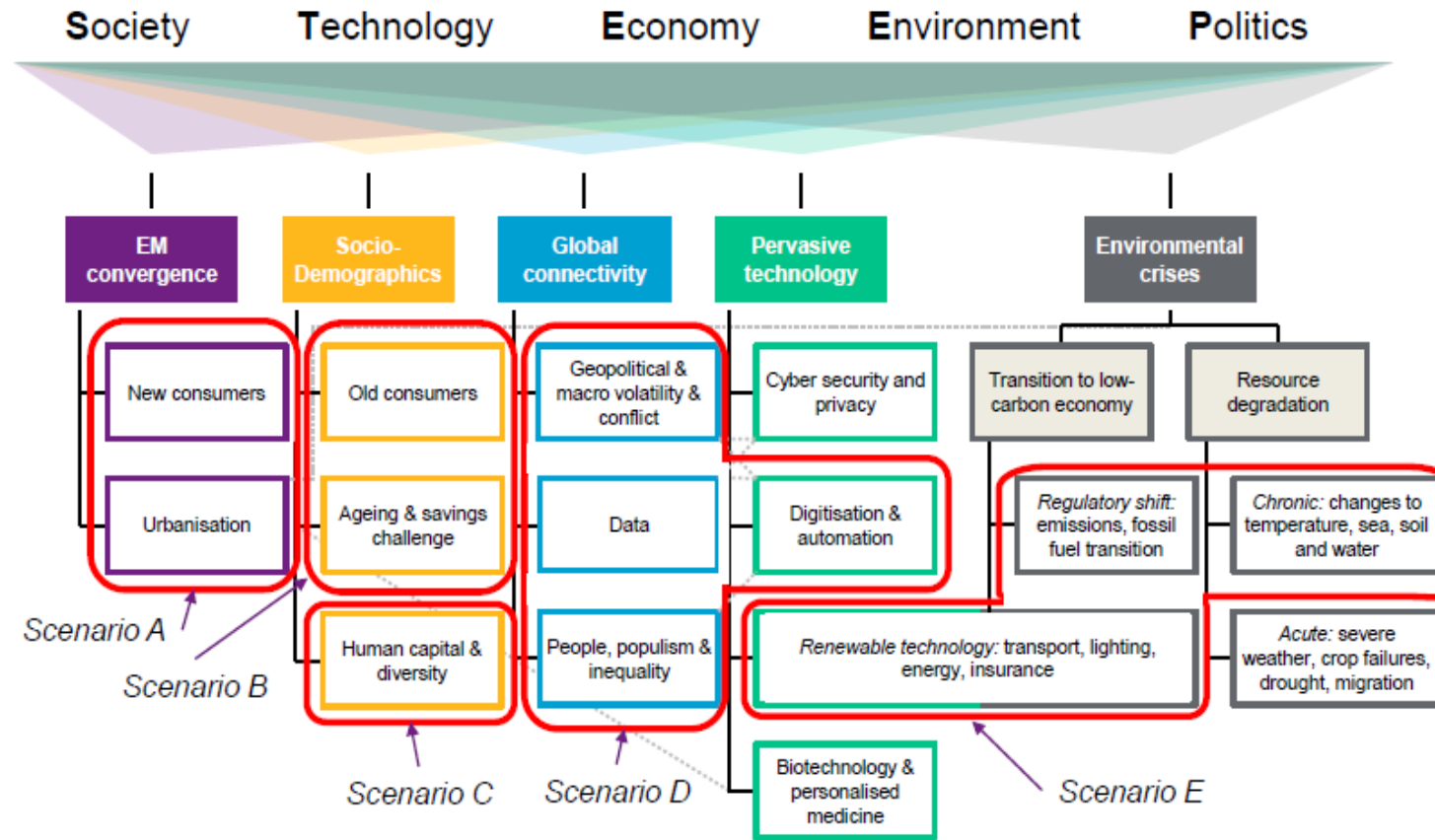
## S&P Dow Jones Indices

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Source: S&P Dow Jones Indices. Permission to reprint or distribute any content from this presentation requires the written approval of S&P Dow Jones Indices. For illustrative purposes only.

# Macro Trends - Forward Looking Perspectives

## From material megatrends to scenarios (indicative)



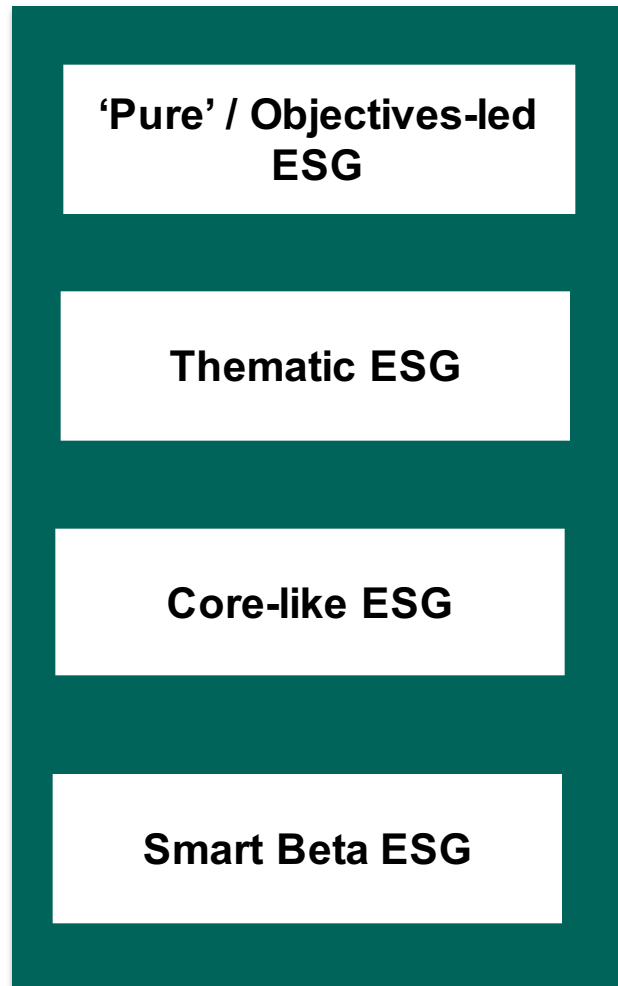
Source: Willis Towers Watson Thinking Ahead Institute, Sustainability Working Group (Garcia, Hodgson, Macpherson et al), 2017

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# 150+ S&P Dow Jones ESG Indices - Overview



- Dow Jones Sustainability Indices (“DJSI”):
  - ‘Sustainability Leaders’
  - Launched in 1999, very well-known industry benchmark
- S&P Green Bond Indices
- S&P Global Clean Energy
- S&P Global Water
- S&P Muni Bond Water & Sewer
- ESG: S&P E&S Responsible Index (75% coverage)
- ESG: DJSI Diversified & DJSI Diversified Select Indices (50% coverage)
- Low carbon: S&P Carbon Efficient Indices
- Low carbon: S&P Fossil Fuel Free Indices
- **S&P Long-Term Value Creation Index**
- JPX/S&P CAPEX & Human Capital Index



# Join the Conversation

For more information on our Sustainability Index activities, please visit:

Sustainability Theme Page - <http://spindices.com/concept/sustainability>  
Indexology: Sustainability - <http://spindices.com/indexology/sustainability>  
Indexology Blog - [www.indexologyblog.com/](http://www.indexologyblog.com/)  
IndexTV for S&P DJI Videos - <http://spindices.com/multimedia-center/>  
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### The S&P LTVC Global Index was launched on January 11 2016.

All information presented prior to an index's Launch Date is hypothetical (back-tested), not actual performance. The back-test calculations are based on the same methodology that was in effect on the index Launch Date. Complete index methodology details are available at [www.spdji.com](http://www.spdji.com).

S&P Dow Jones Indices defines various dates to assist our clients in providing transparency. The First Value Date is the first day for which there is a calculated value (either live or back-tested) for a given index. The Base Date is the date at which the Index is set at a fixed value for calculation purposes. The Launch Date designates the date upon which the values of an index are first considered live: index values provided for any date or time period prior to the index's Launch Date are considered back-tested. S&P Dow Jones Indices defines the Launch Date as the date by which the values of an index are known to have been released to the public, for example via the company's public website or its datafeed to external parties. For Dow Jones-branded indices introduced prior to May 31, 2013, the Launch Date (which prior to May 31, 2013, was termed "Date of introduction") is set at a date upon which no further changes were permitted to be made to the index methodology, but that may have been prior to the Index's public release date.

Past performance of the Index is not an indication of future results. Prospective application of the methodology used to construct the Index may not result in performance commensurate with the back-test returns shown. The back-test period does not necessarily correspond to the entire available history of the Index. Please refer to the methodology paper for the Index, available at [www.spdji.com](http://www.spdji.com) for more details about the index, including the manner in which it is rebalanced, the timing of such rebalancing, criteria for additions and deletions, as well as all index calculations.

Another limitation of using back-tested information is that the back-tested calculation is generally prepared with the benefit of hindsight. Back-tested information reflects the application of the index methodology and selection of index constituents in hindsight. No hypothetical record can completely account for the impact of financial risk in actual trading. For example, there are numerous factors related to the equities, fixed income, or commodities markets in general which cannot be, and have not been accounted for in the preparation of the index information set forth, all of which can affect actual performance.

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Web: [www.spindices.com](http://www.spindices.com) | [www.djindexes.com](http://www.djindexes.com)





# UBS Asset Management – Sustainable and Impact Investing

# Sustainability matters

“

More and more of our clients are expressing an interest in Sustainable Investing. Clients are at the core of what we do, providing them with products that meet their needs. So staying ahead of the game and offering clients what they want also makes very good business sense.

**Axel A. Weber**

Chairman UBS Board of Directors

”

## UBS & Society vision

Focus the firm on driving long-term positive impact for clients, employees, investors and society

### Key facts: (not comprehensive)

- **92% HNWIs** believe that it is important to drive social impact and 54% want more social impact advice from their wealth manager
- **78% of asset owners** surveyed by Responsible Investor consider environmental, social and governance (ESG) management to be one of the top 5 issues when choosing an asset manager; 24% place it as a top three priority
- In 2016, the total UBS **IB deal value** in equity or debt capital market services relating to these areas was CHF **59.8bn**, and **106.3bn** relating to financial advisory services (mainly environment)
- A 2014 survey of 30,000 respondents across 60 countries, by Nielsen, a consumer research firm, found **67% would prefer to work for a socially responsible company**

## What is our ambition

i

Leader in sustainable investing for private clients

ii

Leader in sustainable investing for institutional clients

iii

Recognized innovator & thought leader for driving positive philanthropic impact

iv

Leader in key ratings

# Sustainable & Impact Investing defined

---

Impact is part of a sustainable investing strategy

## **Sustainability definition:**

Sustainability is the ability to leverage the Environmental, Social and Governance factors (ESG) of business practices to generate opportunities and mitigate risks that contribute to **the long term success** of companies

## **What do we mean at UBS Asset Management by Sustainable Investing?**

We define Sustainable Investing (SI) as a set of investment strategies that incorporate material environmental, social and governance (ESG) considerations into investment decisions. These strategies typically seek to reach one or more of the following objectives

- Improving portfolio risk/return characteristics
- Aligning investments with stated values
- Achieving a positive environmental or social impact alongside financial returns

## **UBS' Impact definition:**

- Invest in companies that intentionally undertake activities to achieve superior environmental, social and governance performance with a measureable and beneficial (positive) impact alongside a financial return

# A world-class approach to sustainability

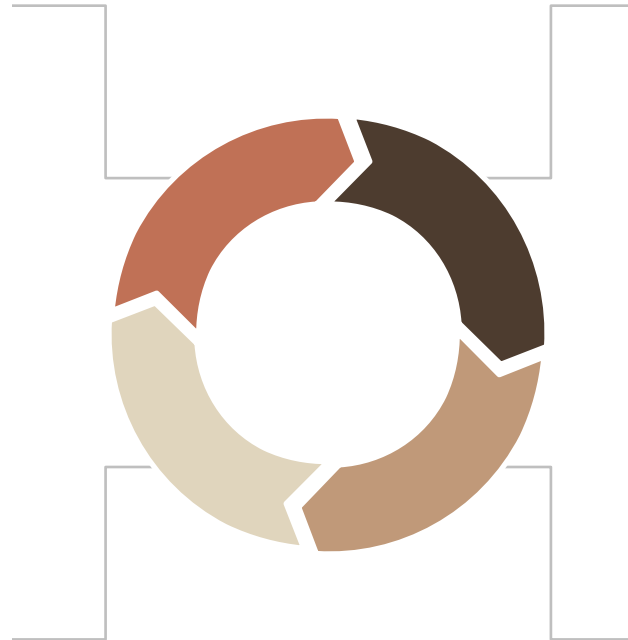
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## Dedicated sustainability research

- Team of industry leading SI Research experts covering
  - Carbon climate risk / Renewables
  - Gender, diversity, and human capital
  - Corporate governance / Ethics
  - Product impact/product stewardship
- Support SI integration across asset classes
- Help drive high conviction SI product development
- Developing an ESG toolbox to flexibly tailor to client needs

## Global network

Our network of sustainable and impact investing specialists work together with ~930 investment professionals to integrate SI into all strategies



## Integrated corporate engagement team

Investment analysts and portfolio managers drive the engagement, with support from corporate engagement analysts when required

- Clearly defined objective and method of engagement before proceeding, including materiality of issue
- Orient strategic engagement on most material topics
- Proxy voting

## Comprehensive sustainable and impact investing offering

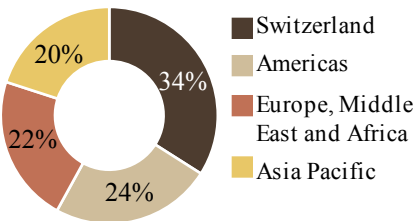
Empowering you to tailor your societal impact by offering:

- Differentiated sustainable focus and impact products
- Sustainable focus and impact solutions structured to meet your needs

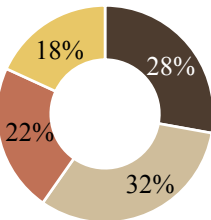
# SI Team - Part of Global Organization

On the ground locally with you and truly global

Invested assets  
CHF 656bn<sup>1,2</sup>



Regional headcount<sup>1</sup>



SI specialists  
are working closely  
together with  
**~ 3,500<sup>3</sup>**  
UBS AM employees  
of which **~930**  
are investment  
professionals

1 As of 31 December 2016.  
2 Data represents the internal distribution view for regions and distribution channels and production view for business lines. Data does not include the assets of non-consolidated joint ventures (CHF 29.4bn as of 31 December 2016)  
3 Thereof around 1,200 from Corporate Center as of 30 June 2016.



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# Keynote Presentation: **Ways of being in a brutalist environment**

John Rogers, *Former Chief Executive Officer and President*, **CFA Institute**

# Ways of Being in a Brutalist Environment

John Rogers, CFA

London, June 2017

# Brutalism...



John Rogers--Responsible Investor Europe



# ...New Brutalism

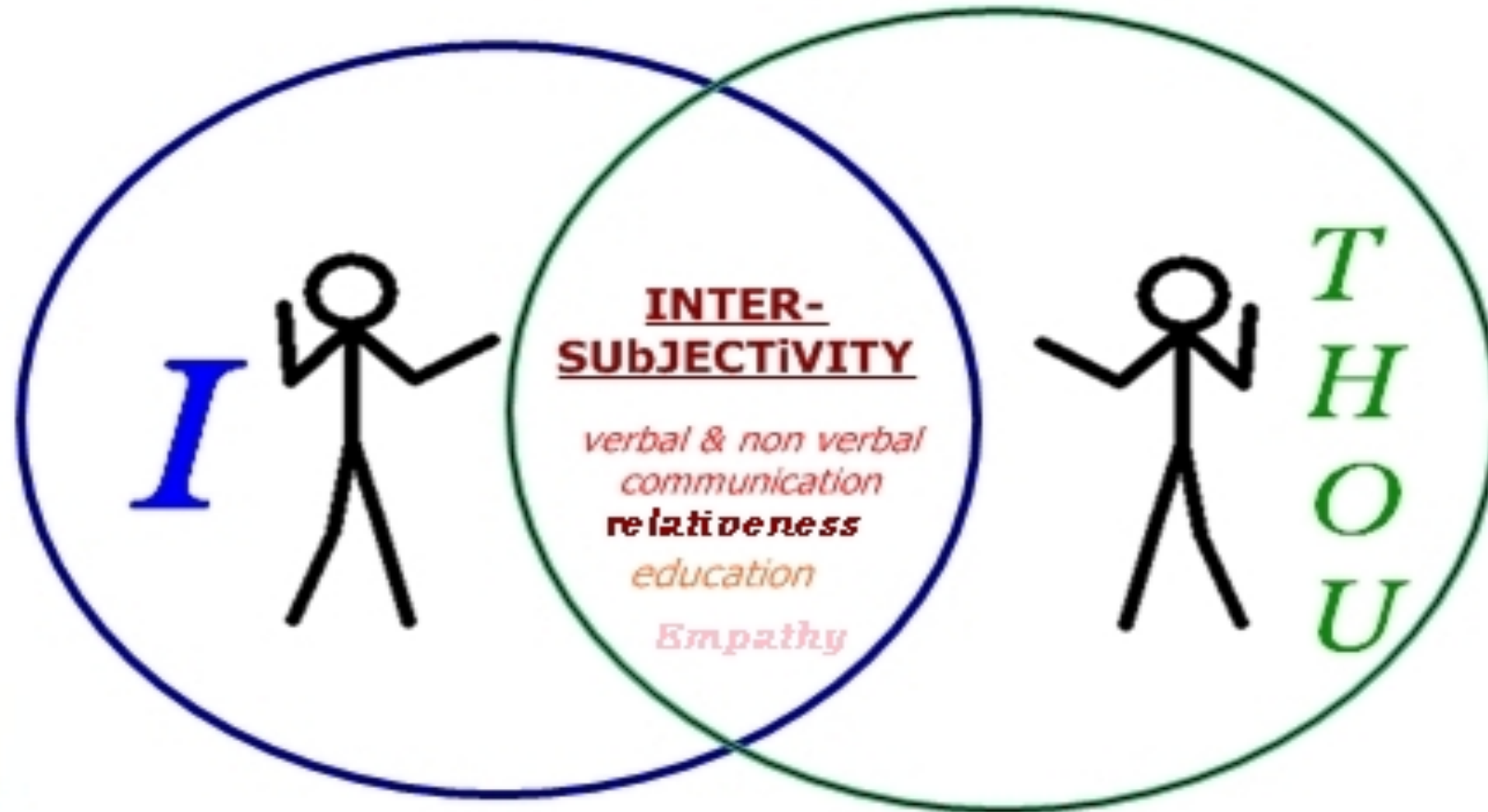


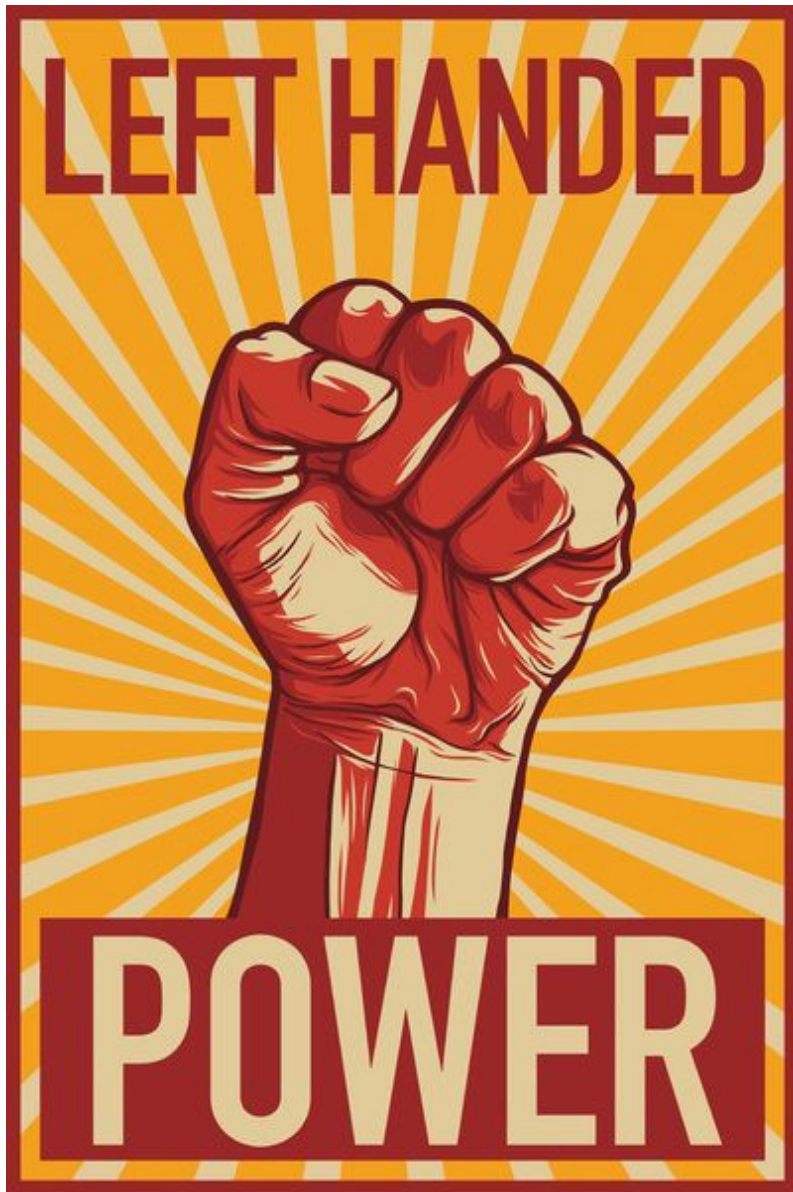
“When we are no longer able to change a situation, we must change ourselves.”

Victor Frankl



# Intersubjectivity





• Servant leadership begins with the natural feeling that one wants to serve...to make sure other peoples highest priority needs are being met (Greenleaf 1970)

# FIDUCIARY CAPITALISM







## Plenary 3: Successful companies and long-term investors share the same goals...don't they? If they don't, could strategic engagement be the answer?

Philippe Desfossés, *Chief Executive Officer*, **ERAFP**

Katrien Hooyman, *Senior Advisor, Investments*, **ABP**

Benedict Buckley, *Vice President, Portfolio Analyst – Environmental, Social and Governance Investment*, **ClearBridge Investments**

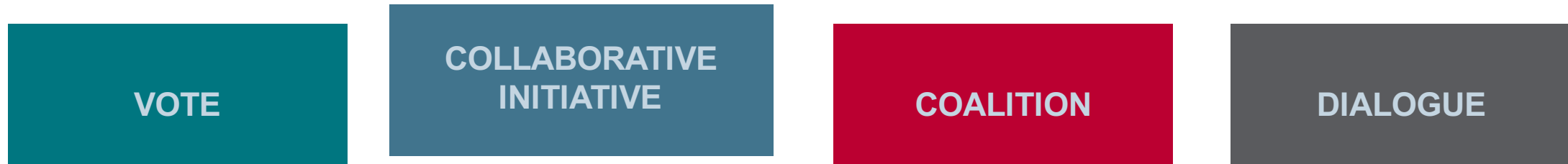
Rakhi Kumar, *Managing Director and Head of ESG Investments and Asset Stewardship*, **State Street Global Advisors**

**Moderator:** Raj Thamotheram, *Chief Executive Officer*, **Preventable Surprises**

### ***Best in class: SRI strategy aiming at favouring high-scoring issuers from an extra-financial point of view***

- ➔ The application of the best in class principle results in the inclusion of quantitative rules that make it possible to determine the eligible investment universe.
- ➔ These rules are defined for each asset class with the aim of encouraging each one to improve. Generally speaking this means:
  - excluding no business sector, but promoting the most responsible issuers within each sector and, more generally, within groups of comparable issuers;
  - showcasing progress made;
  - monitoring and supporting issuers that have adopted a continuous improvement approach.

- Since 2012, ERAFP has formalized its shareholder engagement approach by adopting guidelines that define both priority engagement themes and its general meeting voting policy.
- Shareholder engagement includes all forms of dialogue between one or more investors and one or more issuers.



- Dialogue can also be initiated with a regulatory authority in order to bring about change in the regulatory framework governing investors' activity.
  1. At the international level, within IIGCC, ERAFP lobbied in support of:
    - **the mandatory publication** - in the public domain particularly - of institutional investors' exposure to climate risks;
    - **the introduction of a price for carbon.**
  2. At national level, ERAFP lobbied in support of making public investors' carbon footprints compulsory or how to quickly produce a virtuous circle



### ERAFP engagement policy

- Clear difference between entrepreneurs and executives
- JP Morgan : max ratio between bottom and top remuneration = 20

#### → Strict principle on remuneration package

- Cap on package
- No extra retirement package allowed

#### → ERAFP's asset managers are contractually engaged to implement our guidelines.

Result : ERAFP “voted” against 89% of all resolutions concerning remuneration

### Next issue to be addressed : asset managers compensation

#### ← How can highly paid asset managers not feel compromised when it comes to criticize high pay in other sectors

- BlackRock approved: 96% of remuneration reports
- Goldman Sachs : 87%

#### → Some asset managers show a different way

- BMO approved : 24% (of US remuneration proposals)
- AVIVA : 16%

**Asset owners must demonstrate evidence that their engagement policies are implemented**

## If engagement does not work, divest!

For too long a time institutional investors have been consenting victims  
« Times there are a changing » because fiduciary duty evolves

***Clear signals that some businesses are changing tack***



Renewables are an ideal complement to fossil fuels.

As a responsible industrial player, Total wants to develop these new energies:

- SunPower
- Takeover of SAFT (950 M€)
- Total Energy Ventures



***Some others stick to their guns***

Investors asked EXXON to agree the reporting it will provide on the risk that climate change policy poses to its business.

Exxon had tried to block the resolution from being heard at its meeting



***Might be time to sell***

## In some cases engagement cannot do much !

Coal is toast!

→ A no non sense Best in Class was showing the exit

The limitation of the divestment proposition

→ To sell a stock you must find a buyer

→ This buyer is less interested than you by climate change

**AXA to ditch its €1.7bn investments in tobacco**



“A cost for us but the case for divestment is clear: the human cost of tobacco is tragic, the economic cost is huge.”

With €12bn of health insurance premiums last year, AXA says it no longer sees tobacco as an attractive investment

FT 05/23/2016



## **Plenary 4: Energy...meet Climate.** How the economics and pricing of energy is now a priority for investors: renewables versus fossil fuel pricing, and the policy and regulatory undercurrents of climate change.

Willemijn Verdegaaal, *Advisor, Responsible Investment & Governance*, **MN**

Alice Garton, *Senior Lawyer and Company & Financial Lead*, **ClientEarth**

Simon Dietz, *Director, Grantham Research Institute on Climate Change and the Environment*, **London School of Economics**

Dave Zellner, *Chief Investment Officer*, **Wespath**

**Moderator:** Stephanie Pfeifer, *Chief Executive Officer*, **Institutional Investors Group on Climate Change (IIGCC)**

# The Transition Pathway Initiative's Assessment of Electricity Utilities

Prof. Simon Dietz,  
Grantham Research Institute, London School of Economics

# What is the TPI?

- A global initiative by asset owners, for asset owners...
- ...confronted with the challenge of investing in companies that emit carbon while the world makes a transition – of some sort – to a low-carbon economy
- Co-chaired by the Church of England National Investing Bodies and the Environment Agency Pension Fund, and supported by Asset Owners and Managers with over £2tn AUM
- TPI assesses companies' progress on the transition to a low-carbon economy, in 2 ways:
  1. Management quality: companies' management of their carbon emissions and of risks and opportunities related to the low-carbon transition
  2. Carbon performance: how does companies' carbon performance compare to the international targets and national pledges made as part of the Paris Agreement
- We publish the results of this analysis free on the LSE website:  
[www.transitionpathwayinitiative.org](http://www.transitionpathwayinitiative.org)

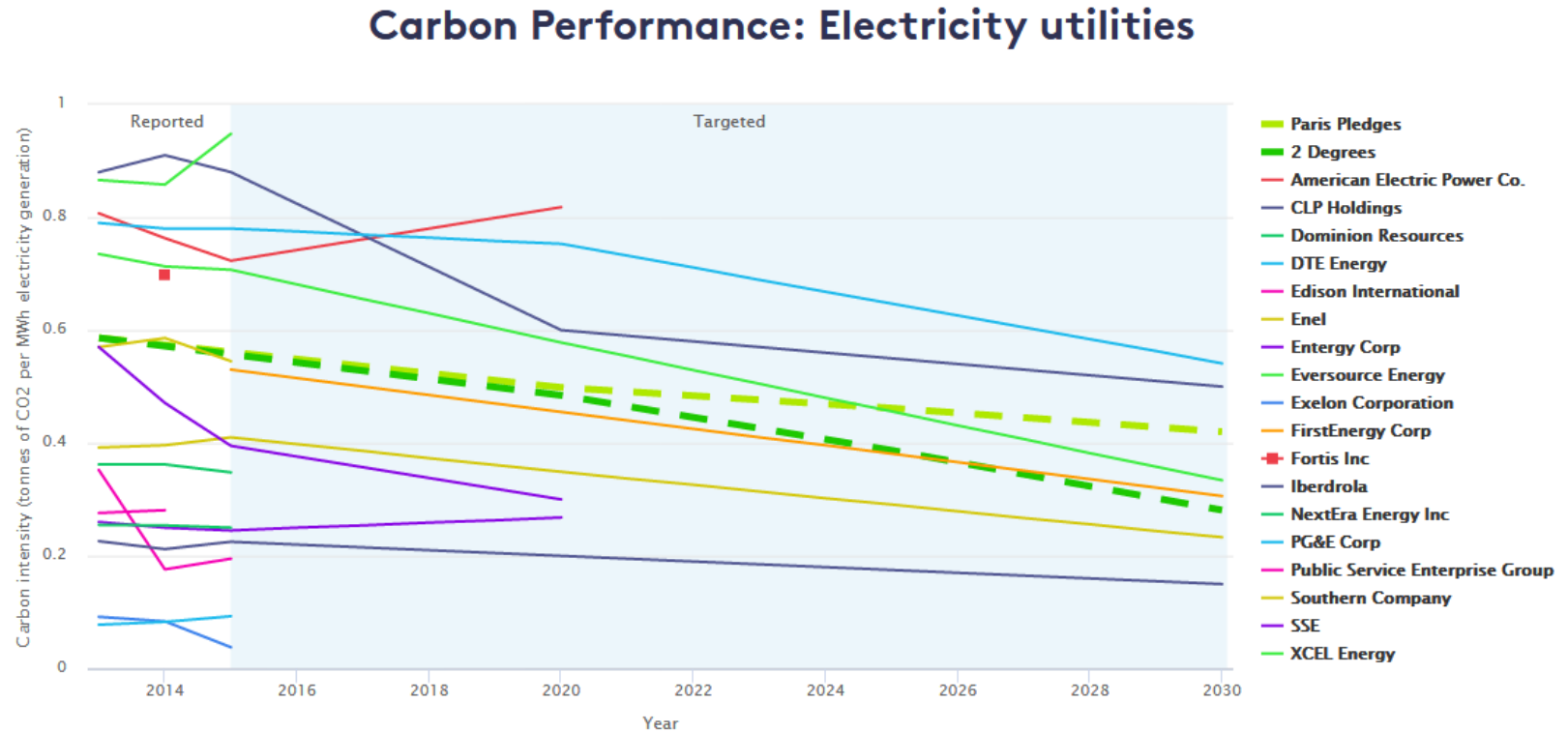
# Management quality of global top 20 electricity utilities





# Carbon performance of global top 20 electricity utilities

- 12/18 companies aligned with 2°C and Paris Pledges today
- 5/9 aligned in 2020 (11 without targets)
- 2/6 aligned with 2°C in 2030; 4/6 aligned with Paris Pledges; 14 without targets



# A dual perspective on electricity utilities' preparedness for the low-carbon transition





# Plenary 5: What does Brexit/Trump mean for institutional investment: the inequality and social issues undermining global capitalism.

Ben Caldecott, *Director, Sustainable Finance Programme, Smith School of Enterprise and the Environment, University of Oxford*

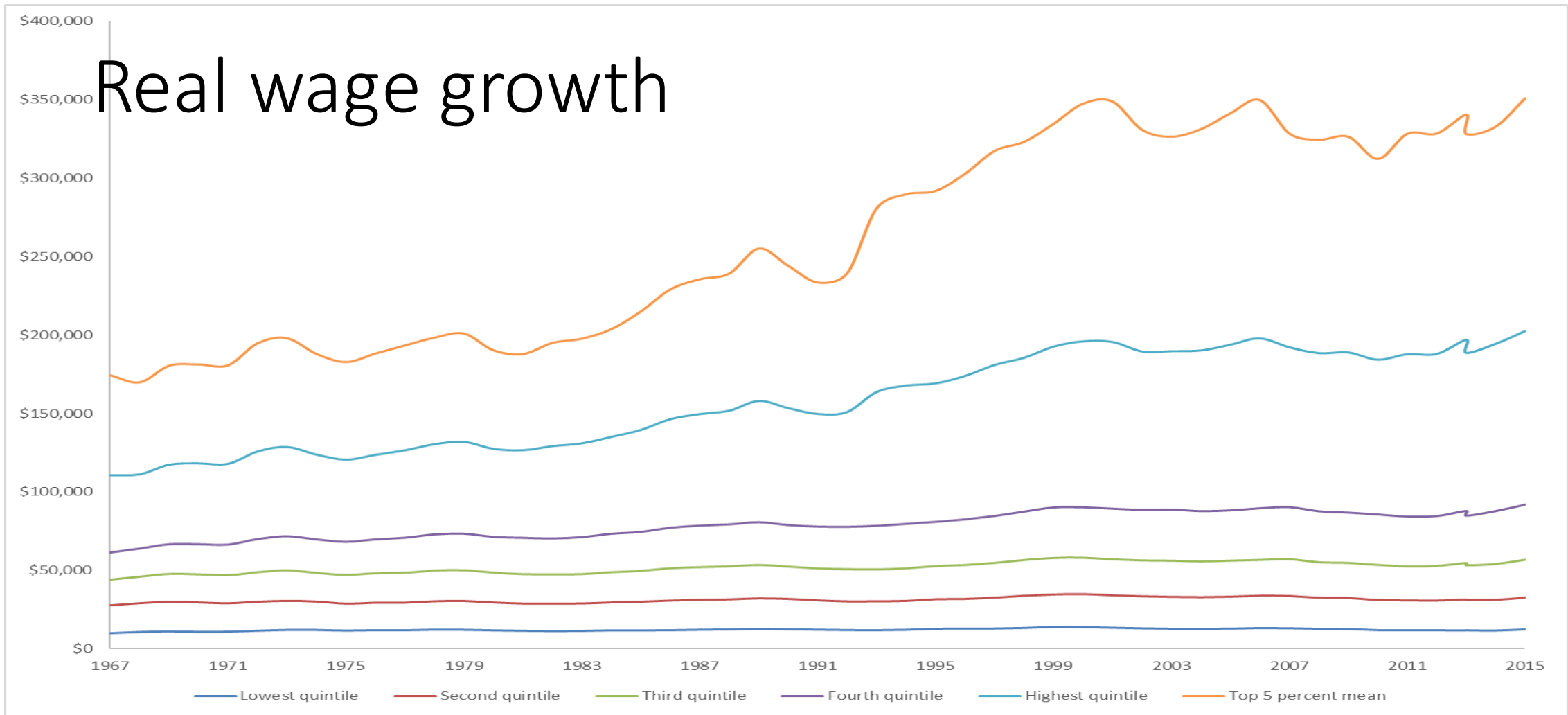
The Right Reverend David Urquhart, *Bishop of Birmingham, Church of England*

Nick Silver, *Managing Director, Callund Consulting and Director, Climate Bonds Initiative*

Fiona Reynolds, *Managing Director, Principles for Responsible Investment (PRI)*

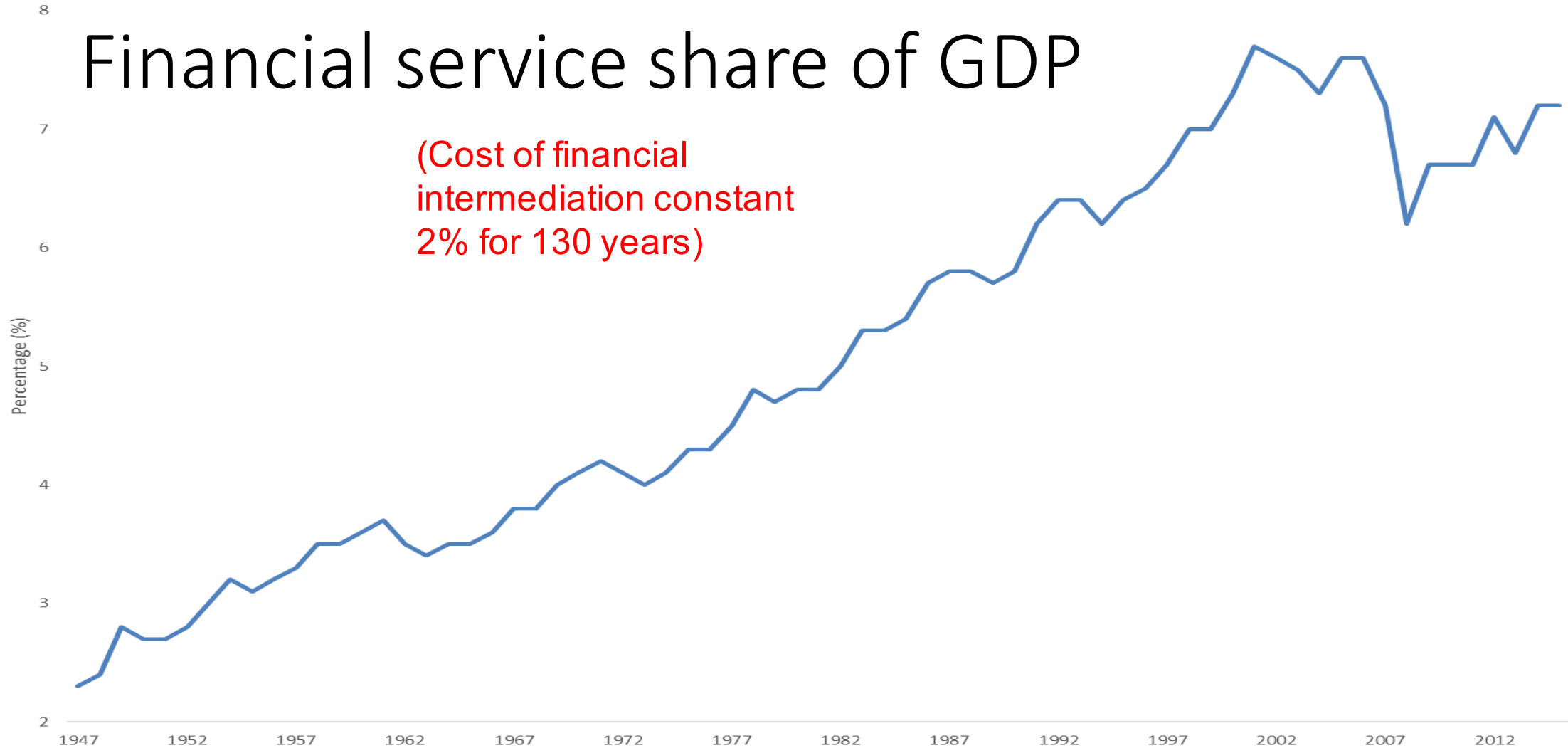
**Moderator:** Catherine Howarth, *Chief Executive, ShareAction*

# Real wage growth



# Financial service share of GDP

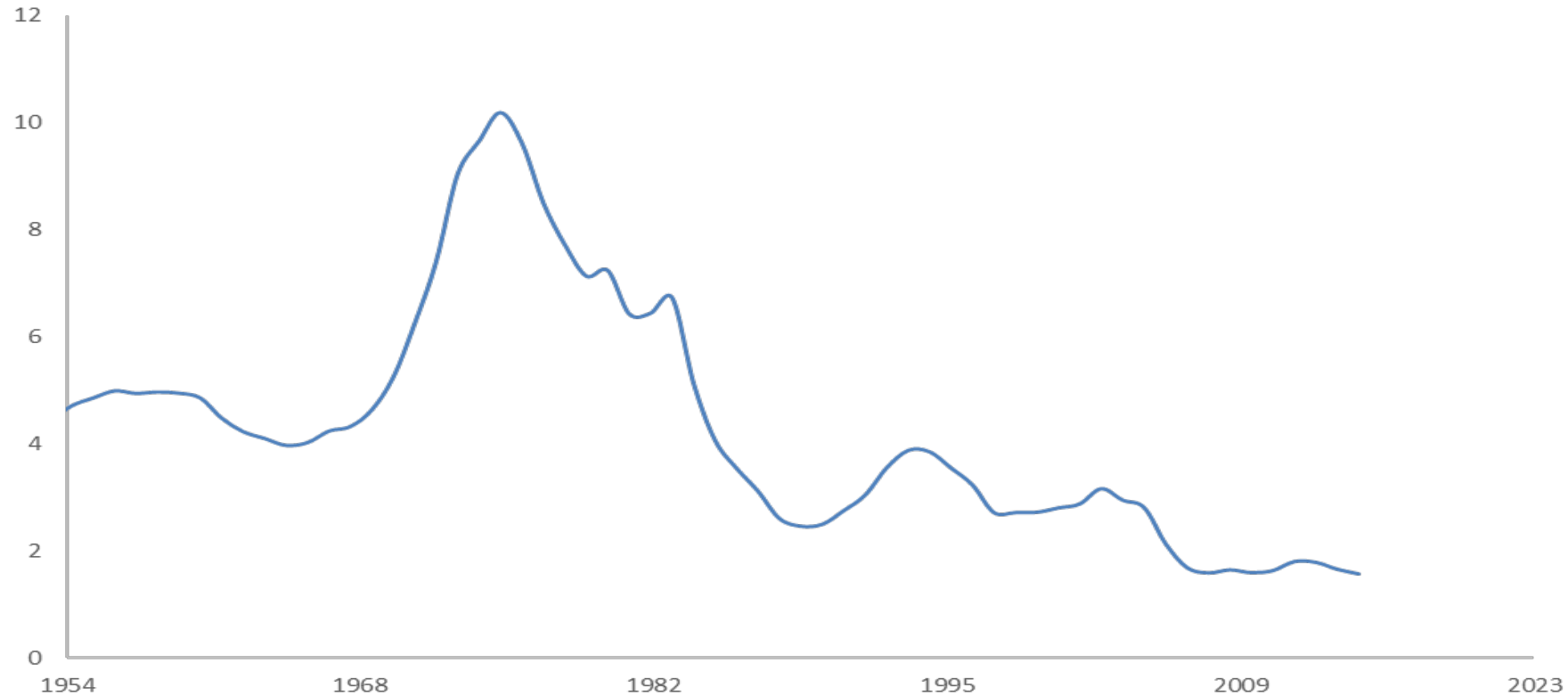
(Cost of financial  
intermediation constant  
2% for 130 years)



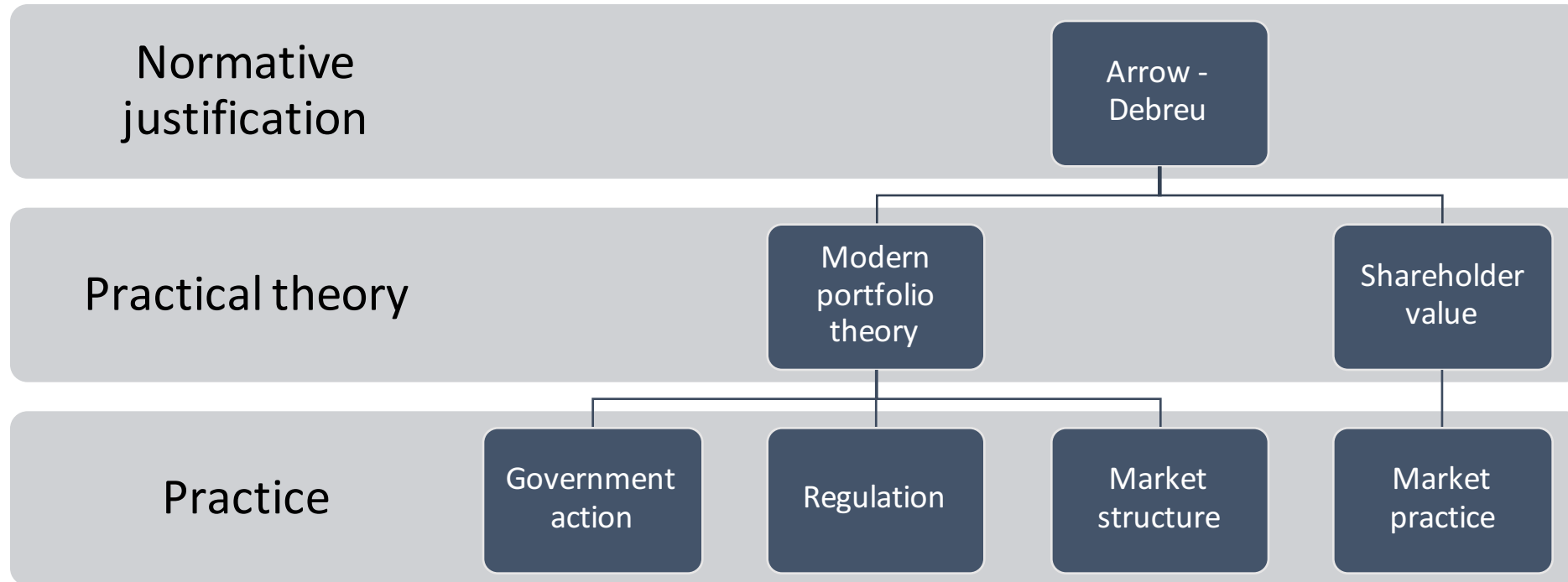
# Proportion of pension fund investment that is invested into economy

	Proportion invested
<b>New issuance in the equity market: 0.5% of 52% (invested in equity):</b>	0.25%
<b>Non-financial corporate bonds: 9% of 29% (invested in bonds):</b>	2.6%
<b>Infrastructure investment:</b>	1%
<b>TOTAL</b>	<b>3.85%</b>

# Investment compared to funds returned to shareholders









# Plenary 6: Tomorrow's world: RI Europe is ten years old. What can we expect from the next 5-10 years in sustainable finance?

Anne Simpson, *Investment Director, Sustainability*, **CaIPERS**

James Featherby, *Chair*, **Church of England Ethical Investment Advisory Group**

Tim Mohin, *Chief Executive Officer*, **Global Reporting Initiative**

Simon Zadek, *Co-Director*, **UNEP Inquiry**

**Moderator:** Hugh Wheelan, *Managing Editor*, **Responsible Investor**

## **Plenary 6**

Tomorrow's World: What Can We Expect  
from the Next 5-10 Years in Sustainable Investment

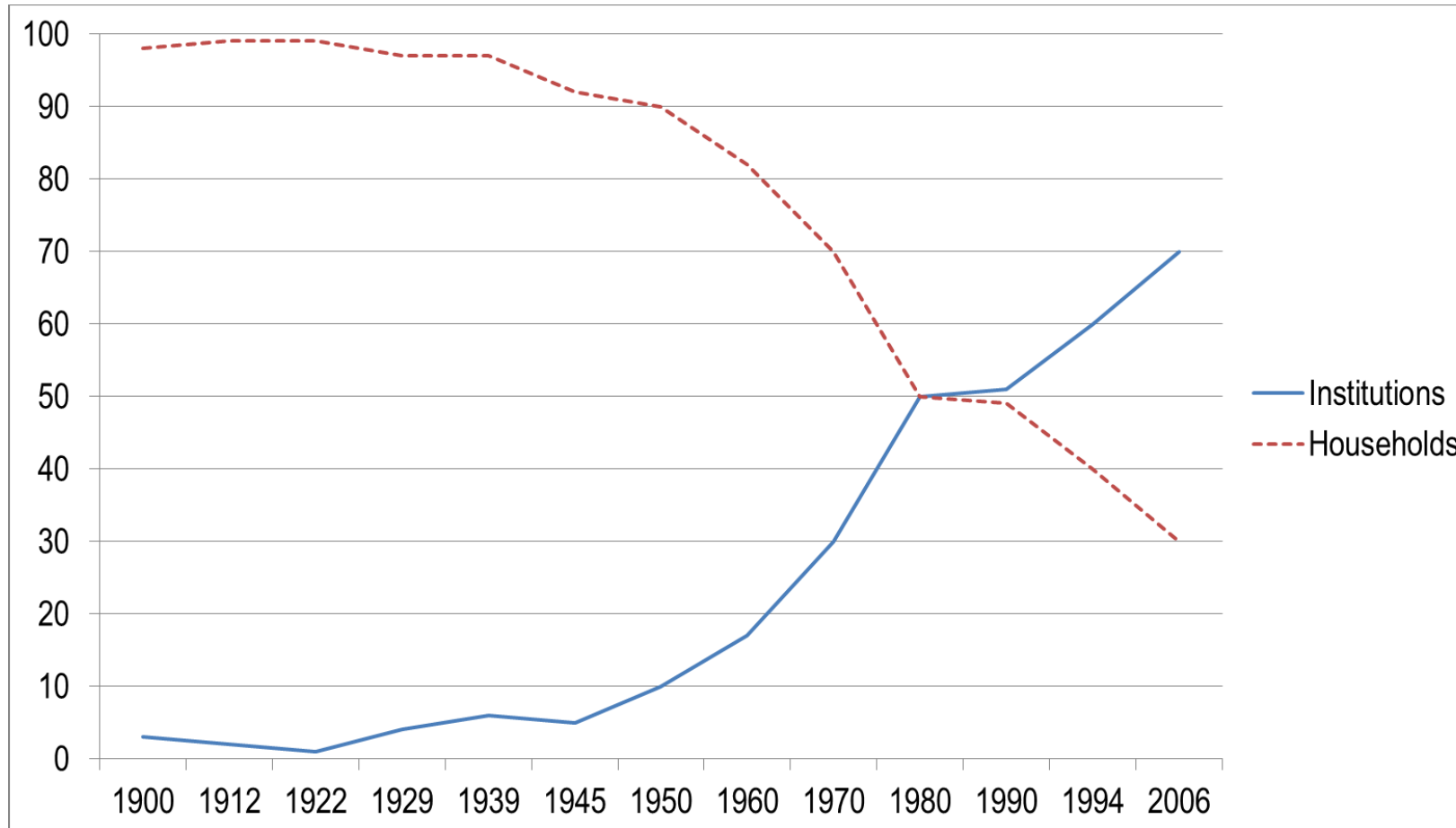
**Anne Simpson, Investment Director**

Sustainable Investment Program

California Public Employees' Retirement System (CalPERS)

# The Common Wealth

## Ownership of U.S. Common Stock



Source: Trends in Institutional Stock Ownership and Some Implications (Blume & Keim, 2008)

# Six Impossible Things Before Breakfast

**"I daresay you haven't had much practice. When I was your age, I always did it for half-an-hour a day. Why, sometimes I've believed as many as six impossible things before breakfast."**



**Alice laughed...  
"One can't believe impossible things."**

*Alice Through the Looking-Glass*  
Lewis Carroll, 1871  
Illustration by John Tenniel