



# PATHWAYS TO SUSTAINABILITY

Our Inaugural Sustainability Report | 2022





## Note from our president



On behalf of Longfellow and our employees, I am pleased to share our inaugural Sustainability Report. I hope it provides insights into LIM and our Pathways to Sustainability. I look forward to your feedback.

- Barbara J. McKenna  
President

So much has changed since LIM's inception in 1986. What has remained constant, however, is the unwavering commitment of our employees to deliver strong investment results and excellent service to our clients. This commitment is rooted in our firm's guiding principle, that our success is contingent upon our clients' success – but it truly extends across all LIM stakeholders.

Over the years, we have been steadfast in our commitment to preserving an inclusive environment that promotes the diverse perspectives of our employees, as well as actively advocating for positive changes in our community, environment, and industry. Prioritizing the success of all LIM stakeholders has been key to our long-term success.

### Brief LIM History

When LIM was established 35 years ago, the original founders sought to leverage their expertise managing internal corporate cash and pension assets with the hope that their risk management focus would resonate with other investors seeking to minimize volatility. What began as a small firm with just four employees and \$9 million in AUM after the first year has grown to 51 employees with more than \$18 billion in AUM. Our strategy offerings have evolved to meet the needs of our clients, from two flagship strategies – short duration fixed income and merger arbitrage – to spanning broadly across bond strategies as well as equities, absolute return, and alternatives.

Our ownership structure has also evolved. When I joined in 2005, we transitioned from a limited partnership to an LLC, and LIM became 100% employee-owned. It has remained this way ever since, which has enabled us to distribute ownership to our key contributors and develop the next generation of LIM's leaders. This more closely aligned our interests with those of our clients and instilled a deeper sense of pride and accountability in our firm culture.

Also integral to LIM's culture is our belief in the merits of diversity of thought – a belief that I have sought to ingrain into the fabric of our firm. We have long recognized that human capital is our most valuable asset, as the collective sum of each employees' life experiences, knowledge, inventiveness, and unique capabilities contribute significantly to LIM's achievements and reputation. Since 2010, we have been a nationally-recognized Certified Women's Business Enterprise, with more than 78% of our firm's ownership held by women. This reflects our commitment to promoting equal opportunities for underrepresented groups in our industry, which has remained a key strategic initiative for us. There is still work to be done, but we look forward to building upon the strides we have made as a firm to addressing these systemic industry challenges.



In 2021, LIM was recognized by The Commonwealth Institute and The Boston Globe as a Top 100 Women-led Business. The list includes the top women business leaders “driving the Massachusetts economy”.

LIM is proud to be included alongside these great women-led companies and will continue to focus on generating positive impacts and successful outcomes for our clients.

Over the years, we have been fortunate to build lasting partnerships with wonderful clients – in fact, we proudly still maintain our first two institutional fixed income relationships. In addition to the tailored service we provide, our clients appreciate our disciplined and proven investment process, which is based on the premise that we can generate excess returns by responsibly mitigating risks. Inherent in this philosophy is our focus on Environmental, Social, and Governance (ESG) factors, which has helped identify material risks often overlooked by traditional credit research. By integrating ESG in our fixed income analysis, we can construct a more comprehensive view of an issuer's credit profile and can more accurately assess risk and value. This can ultimately lead to better outcomes for society and the environment as well. While the ESG label may be new, our analysis of these factors has always been a key component of our fundamental fixed income credit research process. LIM's investment team is well-versed in ESG analysis, treating these factors as it would any other credit metric.

### **Our Inaugural Report**

Our goal in publishing this report is to share LIM's long-term commitment to our stakeholders. Specifically, how we ensure that our corporate structure, business operations, and investment process remain closely aligned with our firm's core values. In doing so, we define what sustainability means to us and our stakeholders and reveal the core values that comprise our firm's ethos. We will also use our Sustainability Report as a self-assessment, seeking to identify opportunities to improve existing processes so that we can appropriately adapt to the evolving challenges of our business and the industry. This process will include establishing firmwide goals, as well as strategies to achieve them, as we look to serve the best interests of LIM's stakeholders. We will remain steadfast in delivering strong investment results for our clients, supporting progress in our industry, and positively impacting our environment and our community for years to come.

We invite you to enjoy our Sustainability Report and appreciate your continued support of our firm.

*Barbara J. McKenna*

## Our firm

Longfellow Investment Management (LIM) is an employee-owned, research-driven investment manager that has delivered customized solutions and high-quality service for more than 35 years.



### Boutique investment firm at scale

- Founded in 1986
- **\$18.2 billion in assets under management**
- 51 employees; 26 investment professionals

### Long-term commitment to clients

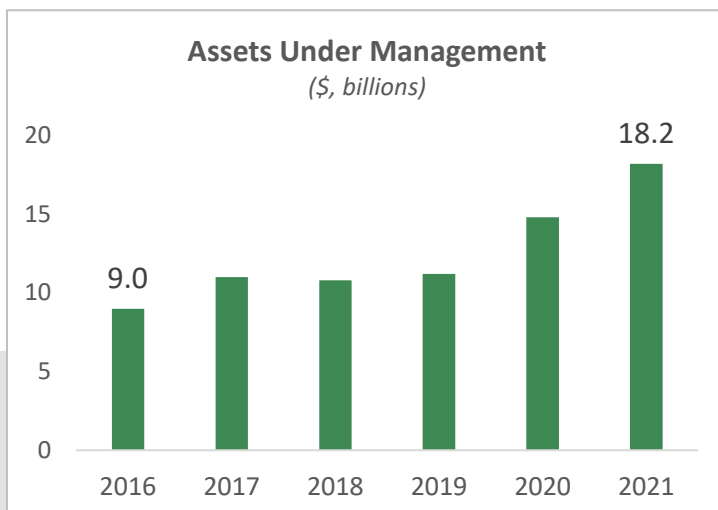
- **Direct access to key decision makers at our firm**
- Separate account structure allows us to satisfy unique investment guidelines
- Strive to establish deep and lasting client relationships
  - › Still retain our first two institutional clients

### Consistent results over time

- Disciplined and repeatable investment process that seeks to provide strong risk-adjusted returns over a cycle
  - › **LIM's Core Fixed Income strategy has delivered top-quintile risk-adjusted returns (Sharpe Ratio) over the trailing one-, five-, and ten-year period versus peers<sup>1</sup>**
- Recognized as "Manager of the Decade" by PSN across fixed income strategies (Core, Core Plus, and Intermediate)<sup>2</sup>
- Event-driven strategies (Concentrated SPACs, Arbitrage strategies) have also received industry recognition<sup>3</sup>

## Longfellow's AUM has doubled over the last five years

➡ **Driven by long-lasting client relationships and strong investment returns**



LIM's Core Fixed Income strategy has outperformed the Bloomberg Aggregate Bond Index in 15 of the last 16 calendar years – with less volatility<sup>4</sup>



# Firmwide commitment to sustainability

At LIM, we are keenly focused on aligning our corporate structure, business operations, and investment process with our core values while supporting continued progress in our industry. We feel that adhering to this ethos should best position our business for the long term and serves as our definition of sustainability.

## LIM Core Values – Our Commitment to:



Commitment to our clients

## ETHICAL BUSINESS PRACTICES

### We Succeed When Our Clients Succeed.

Honesty and integrity have comprised LIM's ethos since its inception in 1986. Our dedication to providing strong investment results and superior client service has earned us the faith and trust of our clients for over 35 years.

In 2005, we evolved our entity structure to better align our interests with those of our stakeholders. This helped to instill a culture entrenched in altruism, inclusivity, and respect – which was enhanced by a code of ethics, ongoing compliance training and data security, and a keen focus on hiring great people. Collectively, these considerations have ensured well-rounded decision making, preserved our reputation, and best-positioned LIM for the future.



Commitment to our employees

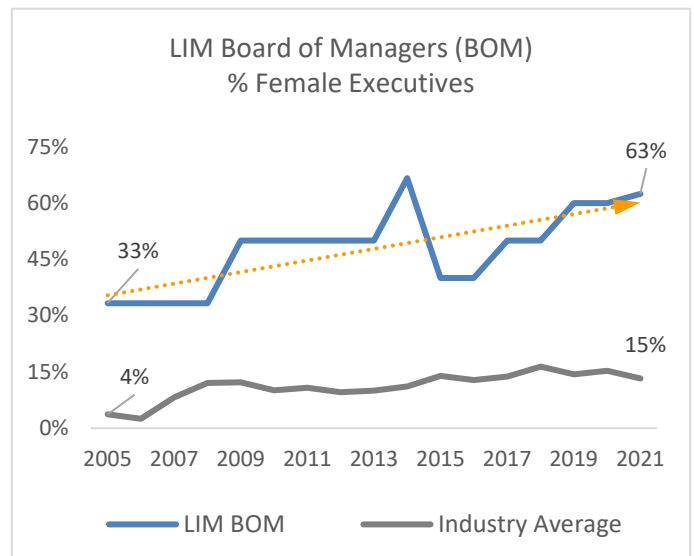
## COLLEGIAL, INCLUSIVE, AND TRANSPARENT CULTURE

### Human Capital Is Our Greatest Asset.

Integral to LIM's long-term success has been the caliber of its people. Our emphasis on building diverse, high-quality teams with unique, yet complementary skill sets has fostered an environment of inclusivity and respect. This has enabled us to achieve diversity not for diversity's sake, but to discourage groupthink biases and ensure that decision-making processes across our firm consider diverse perspectives.

At LIM, achieving diversity of thought via an inclusive and respectful culture begins at the top. Since 2010, LIM has been a nationally-recognized Certified Women's Business Enterprise, with more than 78% of our firm's ownership currently held by women. In addition, 63% of LIM's Board of Managers is comprised of female executives.

*LIM's commitment to DEI has been ingrained in the fabric of our firm since 2005*



Source: LIM, Bloomberg. See appendix for additional information.<sup>5</sup>



In 2010, LIM proudly earned national recognition as a Certified Women's Business Enterprise

Commitment to our community



ONGOING PARTNERSHIPS & VOLUNTEERISM

Advocating for Children, Education, and Underrepresented Groups.

From Winthrop Square to High Street, Boston has always been LIM’s home. Although it looked much different 35 years ago, the pride and passion that fills our city has always remained. At LIM, this sensation has strengthened over the years as our employees regularly sought to combine their leadership experience and values in support of a stronger and healthier community.

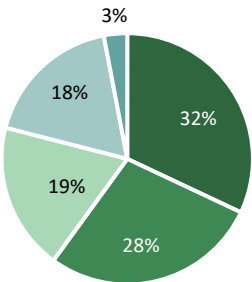
To us, our positive contributions to the Boston community over the last three decades are a result of upholding our firm’s values: a commitment to deep fundamental research in order to achieve strong investment results; operating in an ethical manner; hiring high-quality, civic-minded people; and maintaining an inclusive and equitable work environment. We make concerted efforts to support underrepresented groups such as women, racial and ethnic minorities, and inner-city youth across education, equal opportunity, and health care. Advocating for the advancement of these groups is key to the continued growth of our city and ensuring that sense of Boston pride is shared by all.

*The results our first Annual Employee Volunteer Survey confirm LIM’s community commitments*

84%	LIM employees who volunteer their time and/or resources to charitable organizations
31 hours	Average annual time volunteered per employee
> \$500	Average annual dollars donated per employee
31%	LIM employees who sit on non-profit or charitably inclined Boards or Investment Committees

Employee Charitable Contribution Breakdown

- Social Equity
- Education
- Health Care
- Environment
- Other



Commitment to our environment



ADDRESSING CLIMATE CHANGE

Holding Ourselves Accountable to Protect the Environment.

Climate risk analysis is an integral component of our fixed income credit research. We seek to measure and monitor physical and transition-related climate risks across regions, which has helped us avoid significant issuer-specific losses over time. This process relies on accurate and adequate disclosure – a key reason why LIM has supported the Task Force on Climate-Related Disclosure (TCFD) since 2019.

In addition, LIM relocated to 125 High Street from our long-occupied office space at Winthrop Square in 2020 to support the firm’s continued growth. Our leadership team was very intentional in selecting and designing LIM’s new home, particularly with respect to environmental standards and energy efficiency. These improvements are among several great qualities that our new LEED Gold certified home has to offer.



Source: Mary Schwalm, July 2021. West coast wildfire smoke clouds the Boston skyline, as seen from Cambridge, MA.



Commitment to our industry



## ACTIVE ENGAGEMENT & THOUGHT LEADERSHIP



### Raising our hand to support industry progress.

In the aftermath of the global financial shocks experienced over the last two decades, we recognize the negative stigma associated with our industry. We also recognize, however, the importance of educating potential clients and the next generation of employees on the crucial role that investors have in society. This includes open dialogue with industry participants, sharing perspectives and experiences, and accelerating progress for underrepresented groups.

In 2021, we participated in the Boston Women's Workforce Council (BWWC) Gender/Racial Wage Gap Measurement Process to support the BWWC's effort to measure and eliminate wage gaps in Greater Boston.



### Ongoing communication with our stakeholders.

Each month, LIM summarizes recent market events in a Monthly Market Review, which can be found on our website. These reviews contain information on trends and news that influence our investment decisions and outlook so that our clients can remain informed of our latest thinking.

Our ESG team also publishes a monthly Sustainable Investment Update, offering their take on the potential implications of ESG-related headlines that span regulatory developments, market trends, and company-specific news.

When specific research topics require more in-depth analysis, our equity, credit, and ESG teams will publish primers and white papers that serve to educate our clients and assist portfolio managers in their investment decision-making process.

#### 2021 Published Research

- Monthly Market Reviews
- Strategy Highlight: The Case for Equity Income
- Monthly Sustainable Investment Updates
- ESG Primer: Net Zero Commitments
- ESG Primer: Electrification of the Auto Industry
- ESG Primers: Preparing for COP26; COP26 in Review

Please contact [Marketing@longfellowim.com](mailto:Marketing@longfellowim.com) to receive these publications.

### Engagement is an important tool for active managers.






Our responsibility as an active investment manager involves preserving the integrity of the capital markets. We view engagement as essential to not only understanding potential risks and opportunities of an investment, but also in encouraging companies to think critically about their impacts on the environment and society.

Since we began formally tracking our engagement activity in 2017, we have engaged issuers over 60 times across 17 separate ESG topics. To us, successful engagement is not merely measured by having influenced a company to change, but also gaining a better understanding about management's attitude toward stakeholders that would influence our investment decision.



## Summary of our sustainability initiatives

One goal in publishing our inaugural Sustainability Report was to reflect on LIM's existing organizational structure and business practices and identify areas where we could expand our presence or capabilities. This year, our employees and senior leaders worked together to establish appropriate and measurable objectives that we felt would positively impact all LIM's stakeholders. We determined that this would be best achieved by setting long-term goals with near-term checkpoints that will allow us to track our progress. We look forward to providing annual updates in subsequent Sustainability Reports.

LIM Stakeholders	Near-term priorities	Long-term goal
 Clients	Establish a quantitative measure for client satisfaction.	Deliver strong investment results and superior client service
 Employees	Utilize employee feedback to support post-COVID-19 working preferences.	Remain a sought-after workplace for talented, diverse, and well-qualified candidates
 Community	Explore partnership with a local non-profit organization whose goals are consistent with our own.	Remain active in our community to support progress around key socioeconomic issues
 Environment	Consider formal policies regarding net zero initiatives within portfolios and across our operations.	Educate and align our views with clients on developing responsible investment objectives
 Industry	Formalize engagement policy and deepen existing partnerships.	Promote sustainable business practices and acceptance of ESG analysis across asset classes

## Closing remarks

Our country and our communities have faced significant challenges over the past two years, spanning civic unrest, extreme climate events, and the COVID-19 pandemic. As we have many times in the past, Americans have relied on our steadfast resolve and spirit of innovation to come together and overcome these obstacles. At LIM, we remain committed to delivering exceptional client service and strive for consistently strong investment results, while operating in the best interest of all LIM stakeholders.



Despite these new and ongoing challenges, our business has thrived and achieved significant milestones – a testament to the diligence of our employees and the faith of our clients. We are proud of our accomplishments but recognize the need to stay vigilant as we embark on a new year. Our team is as strong as ever, and we feel we are well-positioned to deliver for our stakeholders now and well into the future.

# Appendix: endnotes and disclosures

## Endnotes

<sup>1</sup> The supplemental information on this page complements the full Core Composite presentation, which can be provided upon request.

<sup>2</sup> See award disclosures below for more information

<sup>3</sup> See award disclosures below for more information.

<sup>4</sup> The supplemental information on this page complements the full Core Composite presentation, which can be provided upon request.

<sup>5</sup> Industry average = the average percentage of female executives across U.S. Asset Management firms based on latest available Bloomberg data.

<sup>6</sup> LIM “Positive Employee Engagement Score” is calculated as the average percentage of respondents indicating either agreement or strong-agreement with LIM’s 10 engagement survey statements. The same questions will be asked each year to help us measure progress against our engagement goals.

<sup>7</sup> The Paylocity sentiment score is based on all written participant responses using keyword association as determined by Paylocity. LIM’s score of 7.2 = Positive sentiment.

## Disclosures

Records of investment analyses performed by Longfellow Investment Management Co., LLC in the management of clients’ accounts are available at the firm’s office. Past performance is no indication of future results. It should not be assumed that future investments will be profitable or that future results will equal historical performance. Performance will fluctuate based on varying market, economic, and political conditions.

The opinions contained herein are those of Longfellow Investment Management Co., LLC (LIM) at time of publication and will vary as market conditions change. They are based on information obtained by LIM from sources deemed to be accurate and reliable. However, accuracy is not guaranteed. It is in the sole discretion of the reader whether to rely upon the opinions contained herein. The information provided does not constitute investment advice, is not a recommendation, offer or solicitation to buy or sell any securities, or to adopt any investment strategy and should not be relied upon as such. It does not take into account an individual investor’s particular investment objectives, strategies, tax status or investment horizon. There is no guarantee that any forecasts contained herein will come to pass. Any specific issuers or sectors discussed should not be understood to reflect actual investments made by LIM nor should any conclusions made or opinions stated in relation to those issuers or sectors be understood to impact in any way LIM’s investment strategy on either a long- or short-term basis. Past performance is not an indication of future results. Investment involves the possible loss of principal.

The PRI is an investor initiative in partnership with UNEP Finance Initiative and the United Nations Global Compact. In order to become an investment management signatory, you need to commit to six initiatives which include: incorporating ESG issues into investment analysis and decision-making processes; to be active owners and to incorporate ESG issues into ownership policies and practices; to seek appropriate disclosure on ESG issues by the entities in which the firm invests client assets; to promote acceptance and implementation of the Principles within the investment industry; to work with the PRI Secretariat and other signatories to enhance their effectiveness in implementing the Principles; and to report on the firm’s activities and progress towards implementing the Principles. These principles are voluntary and aspirational. For most signatories, the commitments are a work-in-progress and provide direction for their responsible investment efforts rather than a checklist with which to comply. The only mandatory requirements are paying an annual membership fee and committing to completing the PRI Reporting Framework on an annual basis. PRI signatory status does not imply any level of skill or investment acumen nor does it imply a rating, favorable or unfavorable, of the signatories or of signatory status. It does not constitute investment advice, is not a recommendation, offer or solicitation to buy or sell any securities, or to adopt any investment strategy and should not be relied upon as such. LIM’s status as a PRI signatory is year to year and LIM is currently a PRI signatory.

PSN Top Guns: LIM was awarded Top Guns Manager of the Decade Status by PSN for 2014, 2015, 2016, 2017, 2018, 2019, 2020, and 2021 for the PSN Intermediate Fixed Income Universe. In addition, LIM was awarded Top Guns Manager of the Decade Status for 2016, 2017, 2018, and 2021 for the PSN Core Fixed Income Universe and 2020 and 2021 for the PSN U.S. Fixed Income Universe for Core Plus, and in 2019 for PSN Core Plus Fixed Income Universe. All of the PSN universes were created using the information collected through the PSN investment manager questionnaire and use only gross of fee returns. Mutual fund and commingled fund products are not included in the universe. PSN Top Guns investment managers must claim that they are GIPS compliant. Each additional criteria listed below was applied for the respective 10-year period ending December 31. Products must have an R-Squared of 0.80 or greater relative to the style benchmark. LIM’s Intermediate Duration Composite returns were used in this analysis. Moreover, products must have returns greater than the style benchmark and standard deviation less than the style benchmark. At this point, the top ten performers for the respective 10-year period ending December 31 become the PSN Top Guns Manager of the Decade.

The PSN Intermediate Fixed Income Universe was comprised of 266 firms and 610 products for 2014, 265 firms and 608 products for 2015, 267 firms and 622 products for 2016, 262 firms and 624 products for 2017, 257 firms and 624 products in 2018, 246 firms and 603 products in 2019, 234 firms and 601 products in 2020, and 228 firms and 602 products in 2021. In all eight years, 1.6% these products were named “Top Guns Manager of the Decade.” The PSN Core Fixed Income was comprised of 197 firms and 407 products for 2016, 196 firms and 392 products for 2017, 193 firms and 391 products for 2018, 181 firms and 378 products in 2020, and 177 firms and 383 products in 2021. In all five years, 2.6% were named “Top Guns Manager of the Decade.” For the PSN U.S. Fixed Income Universe, this is the second year in a row the Core Plus product was recognized within the U.S. Fixed Income universe. This universe was comprised of 384 firms and 1,615 products for 2016, 368 firms and 1,649 products for 2017, 362 firms and 1,656 products for 2018, 331 firms and 1,620 products in 2020, and 320 firms and 1,613 products for 2021. In all five years, 0.6% were named “Top Guns Manager of the Decade.” These ratings may not be representative of any one client’s experience, since the ratings are based on composite performance and statistics.



125 High Street, Oliver Tower Suite 832 | Boston, MA 02110  
[info@longfellowim.com](mailto:info@longfellowim.com) | (617) 695-3504