



The Ides changed everything

- Cicero's letters

**VALUES INVESTING: ESG FRAMEWORKS THAT
MINIMIZE RISKS AND MAXIMIZE RETURNS**

EVERYTHING OLD IS NEW AGAIN: A BRIEF HISTORY OF ESG EXTERNALITIES

Government Action

Environmental

Rivers and Harbors Act of 1899

Rivers and Harbors Act
1899



The Jam Above the Bridge at Grand Rapids

Social

Safety Appliance Act of 1893



Governance

SEC'S 1974 Penn Central Proceedings

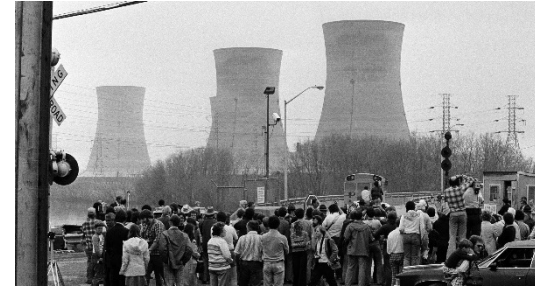


“The Penn Central debacle is not an isolated, idiosyncratic event solely attributable to individual misdeeds or to singular financial manipulations,” the report says. “The Penn Central collapse signals the inability of the present public and private institutions to provide a stable

Self-Regulation

Environmental

Institute of Nuclear Power Operations



Social

Business Roundtable's Statement on the Purpose of a Corporation



STATEMENT ON THE PURPOSE OF A CORPORATION


Americans deserve an economy that allows each person to succeed through hard work and creativity and to have a life of meaning and joy. We believe the free market system is the best means of generating good jobs, a strong and sustainable economy, innovation, a healthy environment and economic opportunity for all.

Businesses play a vital role in the economy by creating jobs, ensuring innovation and providing essential goods and services. Businesses make and sell consumer products, manufacture equipment and vehicles, support the national defense, grow and produce food, provide healthcare, generate and deliver energy and offer financial, communications and other services that underpin economic growth.

WHILE EACH OF OUR INDIVIDUAL COMPANIES SERVES ITS OWN CORPORATE PURPOSE, WE SHARE A FUNDAMENTAL COMMITMENT TO ALL OF OUR STAKEHOLDERS. WE COMMIT TO:

- DELIVERING VALUE TO OUR CUSTOMERS.** We will further the wellbeing of American companies leading the way in meeting or exceeding customer expectations.
- INVESTING IN OUR EMPLOYEES.** This starts with compensating them fairly and providing important benefits. It also includes supporting them through training and education that helps develop our skills for a rapidly changing world. We foster diversity and inclusion, dignity and respect.
- DEALING FAIRLY AND ETHICALLY WITH OUR SUPPLIERS.** We are dedicated to working as good partners for the other companies, large and small, that help us meet our mission.
- SUPPORTING THE COMMUNITIES IN WHICH WE WORK.** We respect the people in our communities and protect the environment by embracing sustainable practices across our businesses.
- GENERATING LONG-TERM VALUE FOR SHAREHOLDERS, WHO PROVIDE THE CAPITAL THAT ALLOWS COMPANIES TO INVEST, GROW AND INNOVATE.** We are committed to transparency and effective engagement with shareholders.

EACH OF OUR STAKEHOLDERS IS ESSENTIAL. WE COMMIT TO DELIVER VALUE TO ALL OF THEM, FOR THE FUTURE SUCCESS OF OUR COMPANIES, OUR COMMUNITIES AND OUR COUNTRY.

BRY.org/OurCommitment 

Governance

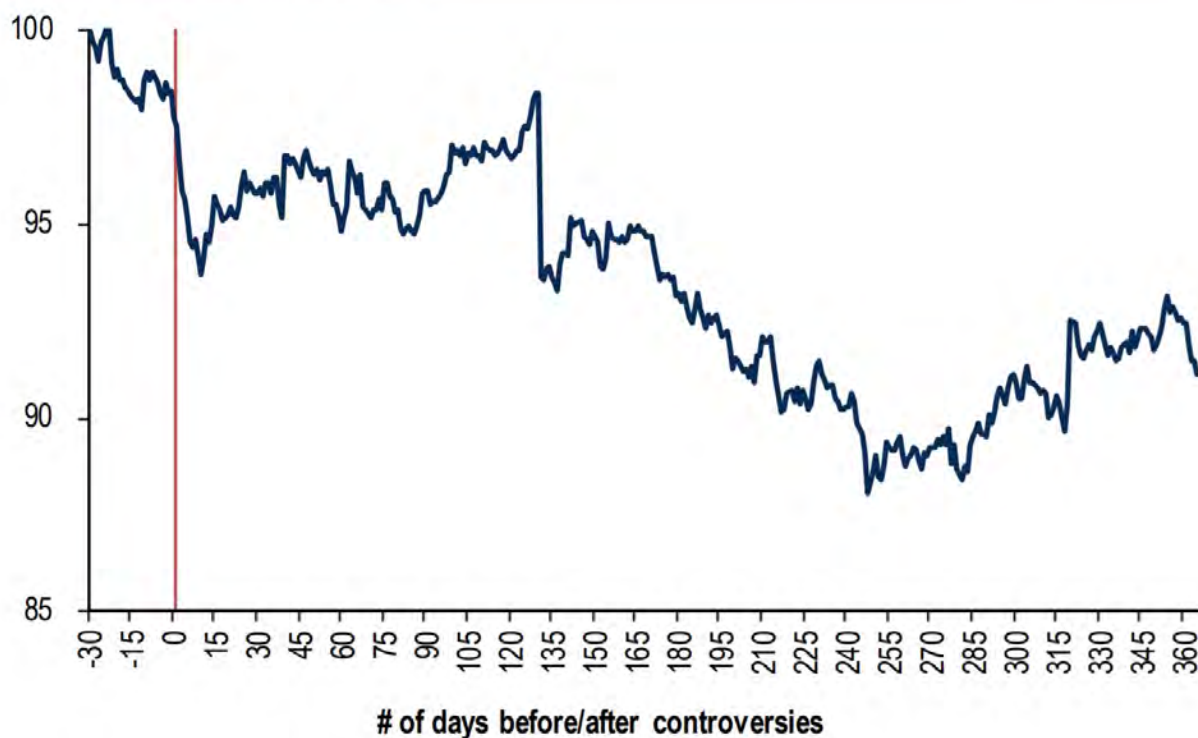
NYSE Listing Standards



THE STICK: ESG FAILURES AND VALUE DESTRUCTION

More than \$500B in value destruction due to ESG controversies

Average peak-to-trough performance of ESG controversy stocks relative to the S&P 500 (market cap weighted, 30 days prior to through 360 days post controversy)

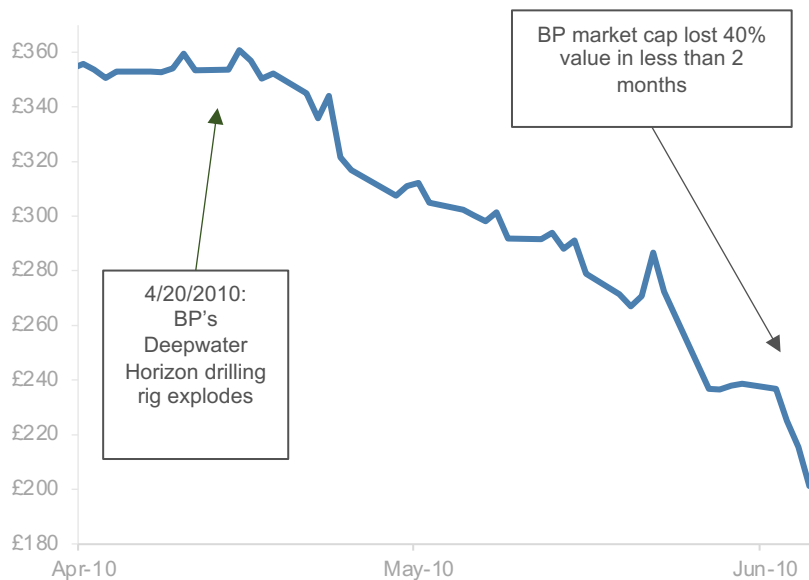


Source: BofA Merrill Lynch US Equity & Quant Strategy

*includes 24 major controversies related to data breaches, accounting scandals, sexual harassment and other ESG topics. See appendix for the list of stocks included in this analysis.

FORTUNE

BP's \$20 billion Deepwater Horizon settlement is a Justice Department record



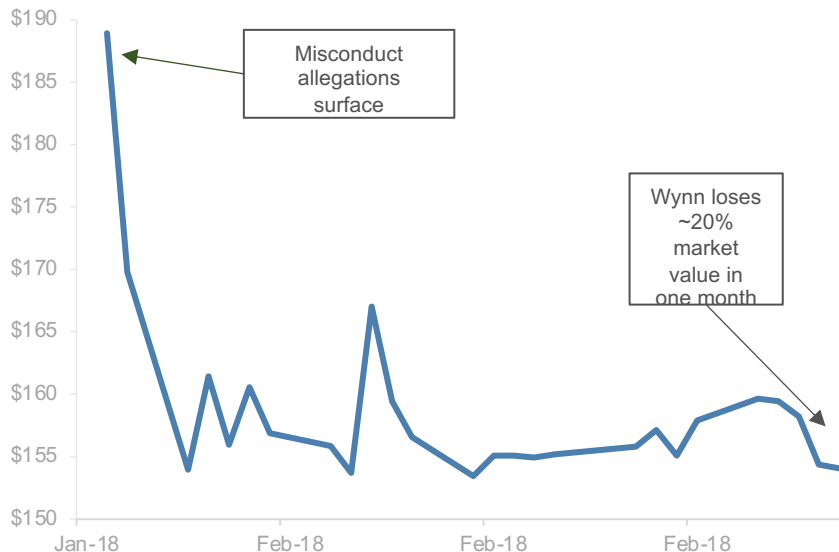
- On April 20, 2010, BP's Deepwater Horizon drilling rig exploded in what is considered to be the largest marine oil spill in the history of the petroleum industry
- 11 people were tragically killed and 17 were injured
- More than 210 million gallons of petroleum were discharged into the Gulf of Mexico
- BP pled guilty to 11 counts of manslaughter, 2 misdemeanors and felony count of lying to Congress
- BP paid more than \$65 billion in costs associated with clean up costs and legal fees
- BP paid more than \$20 billion to settle federal and state claims
- BP's market capitalization plummeted by more than 40% in the months after the accident and 12 years later, remains 50% below prices seen prior to the deadly explosion

The New York Times

DealBook / Business & Policy

BREAKINGVIEWS

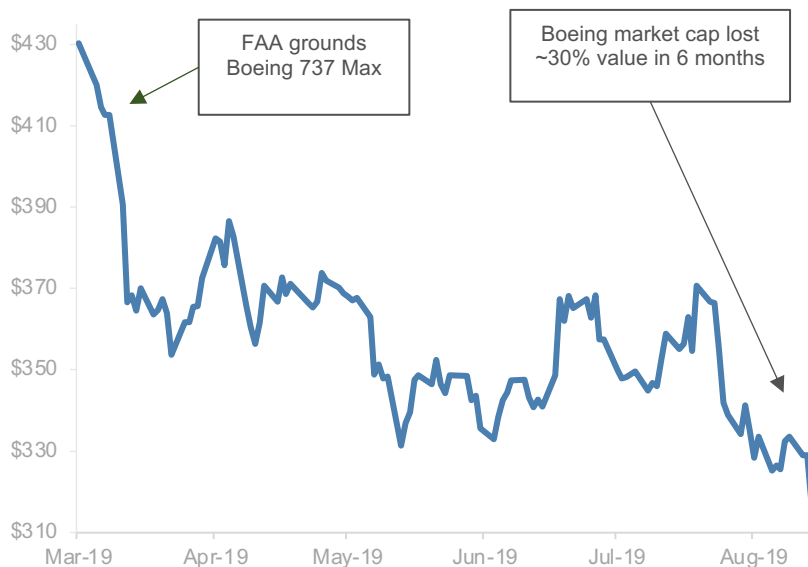
Wynn Resorts' Slide Shows Sexual Misconduct Is a Financial Risk



- On January 26, 2018, allegations surfaced against Wynn Resorts Chairman and CEO Steve Wynn of a long pattern of sexual misconduct with casino employees
- Multiple parties had filed complaints through proper channels with no repercussions
- The board's counsel instructed directors to not reveal to investigative commissions the existence of a \$7.5mm payment by Wynn to a former employee to settle harassment claims
- The Nevada Gaming Commission levied a \$20mm fine, four times the size of any prior fine, against Wynn Resorts, highlighting the "failure of a corporate culture to effectively govern itself"
- The Massachusetts Gaming commission levied a \$35mm fine
- Wynn Resorts' market capitalization fell by 20% in the months following the report and remains 30% below pre-scandal prices

FORTUNE

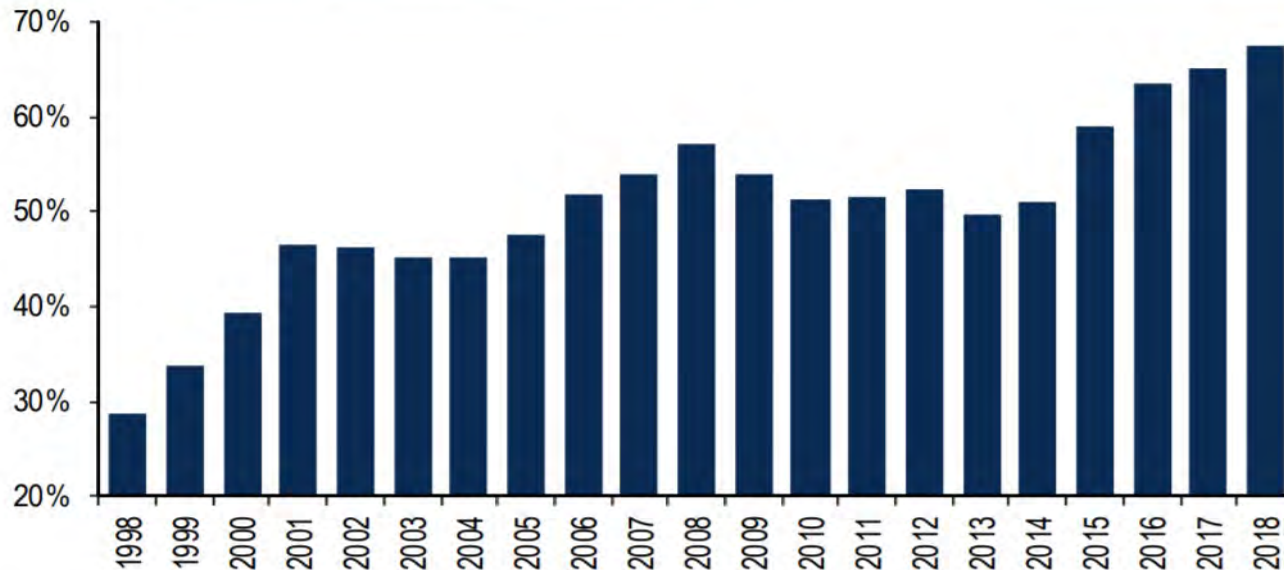
Governance Experts on Boeing: 'There Is Something Wrong with the Board'



- On March 13, 2019, the US FAA grounded Boeing's 737 Max after the October 2018 Lion Air Flight 610 and March 2019 Ethiopian Airlines Flight 302 crashes, which tragically killed 346 passengers and crewmembers
- Whistleblower engineers had sent numerous communications to management and the board over years raising concerns about the 737 Max program with no response
- On February 19, 2019, one engineer sent a letter to the board raising safety concerns; the board took no action and less than 3 weeks later Ethiopian Airlines Flight 302 crashed
- Boeing recently paid a \$2.5b settlement including criminal penalties; this does not protect former employees from prosecution
- To date, the total financial costs sustained are \$80b; Boeing's market value decreased by 30% after the groundings is now more than 40% below those prior valuations

Corporate balance sheets have never been more exposed to ESG risk factors

S&P 500 intangible assets as a percent of book value, 1998-2018



Source: FactSet, BofA Merrill Lynch US Equity & Quant Strategy

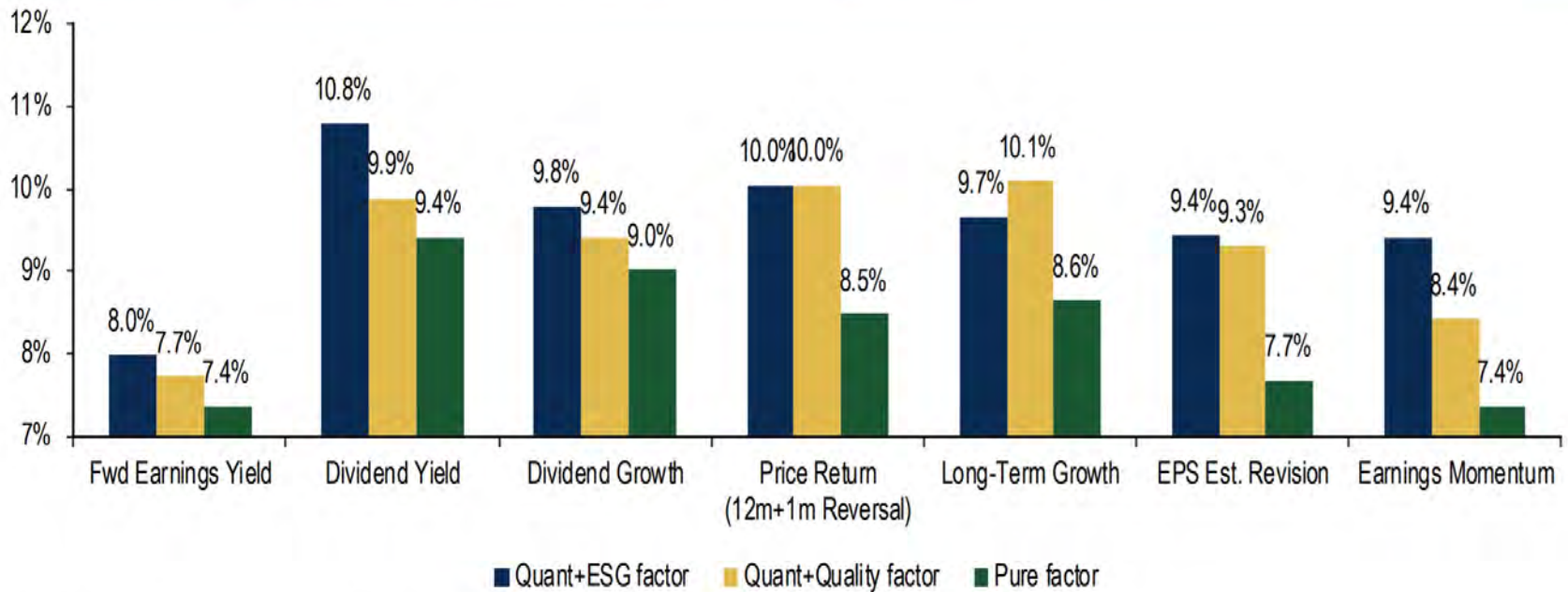
“Lose money for the firm, even a lot of money, and I will be understanding; lose reputation for the firm, even a shred of reputation, and I will be ruthless.”

- Warren Buffett

THE CARROT:
STRONG ESG MAXIMIZES LONG-TERM VALUE

ESG factors exhibit superior alpha-generation when compared to Quality factors

Annualized total returns of top quintile S&P 500 stocks by quant factor (pure quant vs. ESG-blend vs. Quality-blend; 12/2005-8/2019)

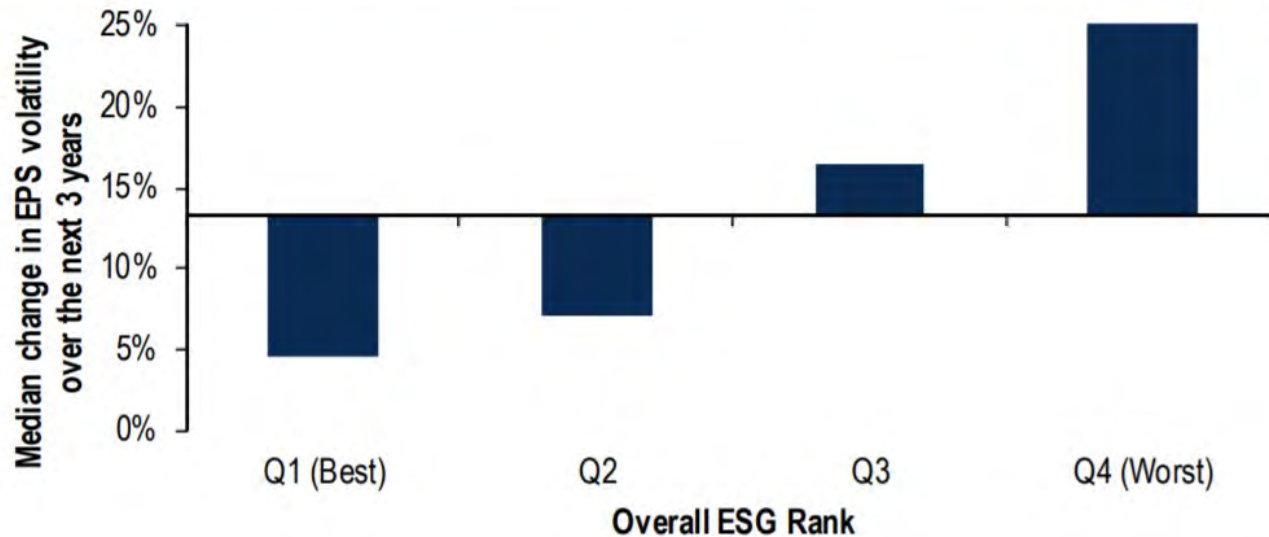


Source: BofA Merrill Lynch US Equity & Quant Strategy, Thomson Reuters

Backtesting is hypothetical in nature and reflects application of the analytical approach prior to its introduction. It is not actual performance and is not intended to be indicative of future performance.

Companies with the strongest ESG ratings have lower earnings volatility over the subsequent five years

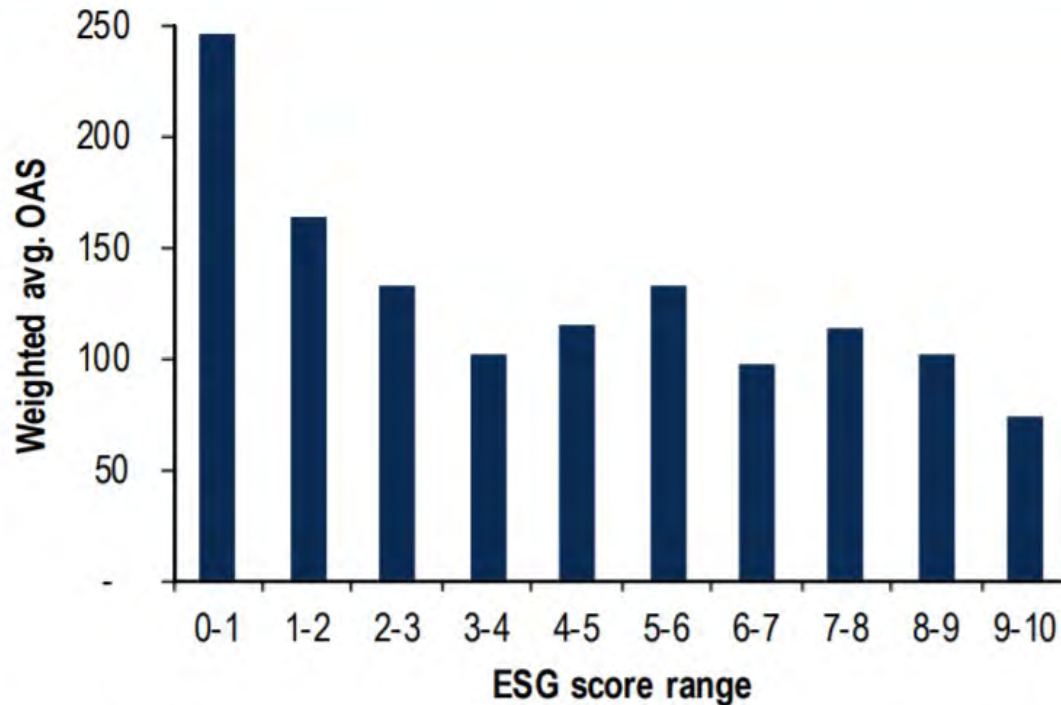
Median change in 3-yr EPS volatility over subsequent five years based on Thomson Reuters Overall ESG score from 12/2005-12/2015 (with volatility through 12/2018)



Source: Thomson Reuters, BofA Merrill Lynch US Equity & Quant Strategy

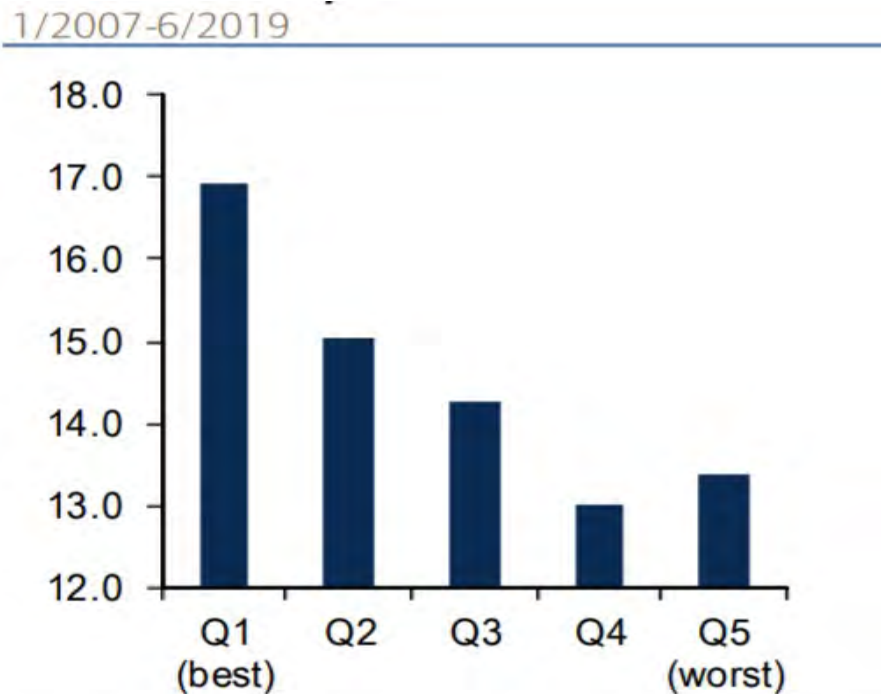
Strong ESG performers have better risk profiles and, on average, have debt borrowing costs that are nearly 2% lower than the weakest ESG performers

Weighted average option-adjusted spread (OAS) vs. MSCI ESG scores as of 8/31/2019



Source: MSCI ESG Research LLC, BofA Merrill Lynch US Equity & Quant Strategy

Strong ESG performers generate returns on equity that are, on average more than 4% higher than the weakest ESG performers

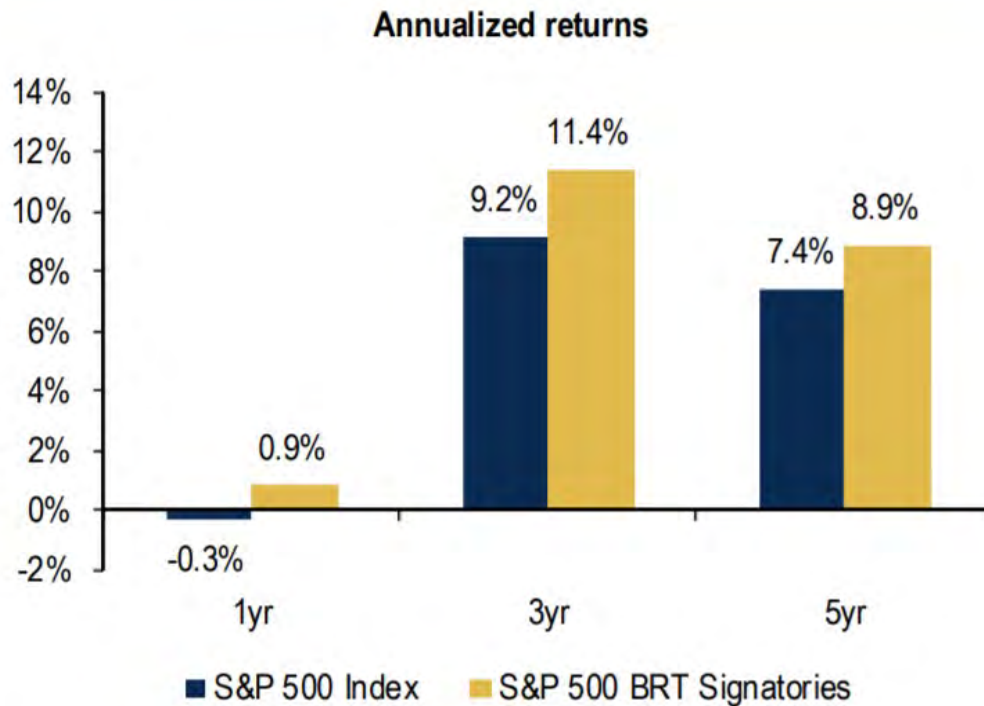


Source: MSCI ESG Research LLC, FactSet, BofA Merrill Lynch US Equity & Quant Strategy

*Q1 includes companies with the highest ratings; Q5 includes companies with the lowest ratings

The Social Factor: S&P 500 Business Roundtable Signatories posted annualized returns that outperformed the broader S&P 500 over 3 and 5 year periods

Performance of the S&P 500 Business Roundtable signatories vs. the S&P 500 benchmark (8/2014-8/2019)



Source: Business Roundtable, BofA Merrill Lynch US Equity & Quant Strategy

Over a twelve year period, investors ascribed a steadily rising relative forward P/E multiple re-rating for the strongest ESG performers v. the weakest ESG performers

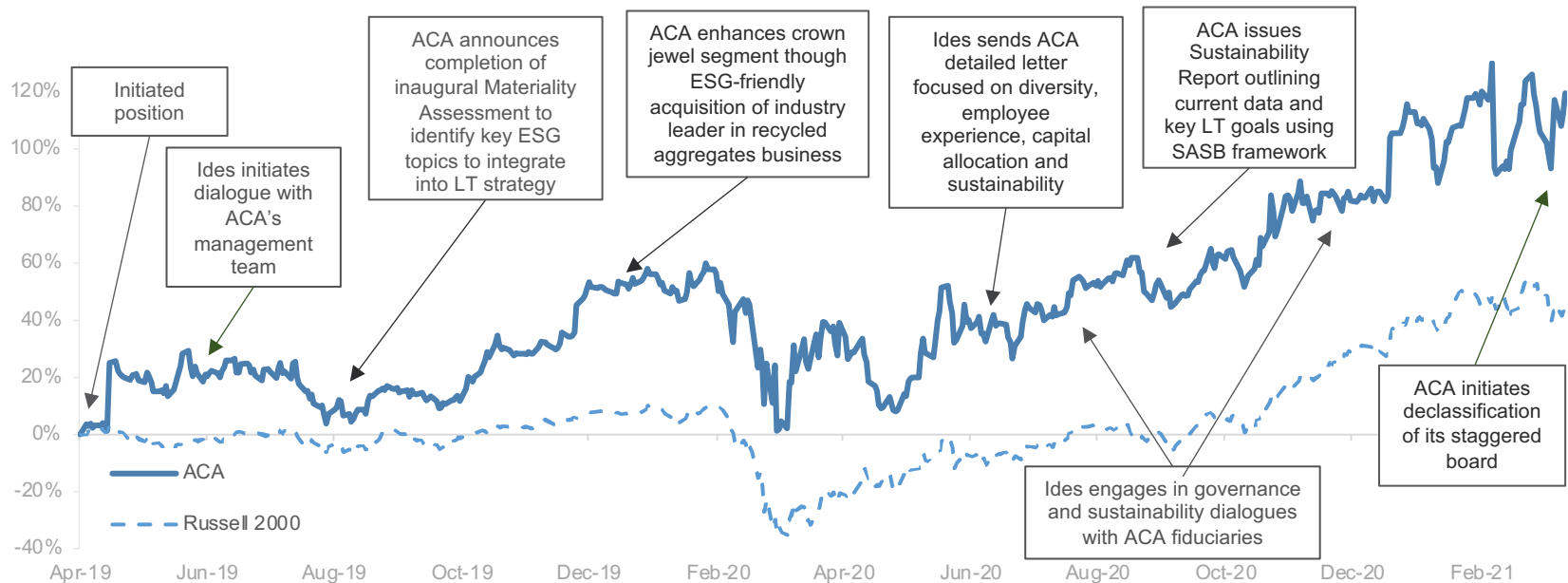
Relative forward P/E of companies in top vs. bottom quintile by MSCI ESG score (1/2007-8/2019)



Source: MSCI ESG Research LLC, BofA Merrill Lynch US Equity & Quant Strategy

ENGAGEMENT AND STEWARDSHIP: VALUES DRIVE VALUE

Initiated ESG Reporting, Has Substantial SOTP Value and Is Up +120%



Investment Thesis

- Infrastructure-focused conglomerate with undervalued crown jewel aggregates and clean energy segments
- Recession-resistant, consistent cash generator with pristine balance sheet, strong management team and significant strategic interest
- Opportunity for tax-efficient transactions to unlock value
- Opportunity to enhance boardroom/C-suite diversity, focus on employee safety and wellbeing and initiate environmental objectives and sustainability reporting
- Non-core segment monetization, organic growth, bolt-on acquisitions and operational/ESG execution drive 20%+ IRR compounder opportunity

Activist Strategy

- Engage with management and board to enhance diversity across workforce including boardroom and C-suite and materially improve employee wellbeing
- Initiate environmental goalsetting and objectives and begin sustainability reporting
- Strategic opportunity to grow crown jewel segments
- Opportunity to streamline business model through tax-efficient transactions
- Opportunity to improve corporate governance including a focus on shareholder rights

Progress to Date

- ACA has generated returns in excess of 120%+ from initial buy-in and continues to perform
- ACA initiated sustainability reporting and has identified key material ESG performance targets to incorporate into LT strategy
- ACA initiated process to declassify the boardroom
- ACA announced accretive bolt-on ESG-friendly acquisition to core aggregates segment and has acknowledged continued opportunity to grow superior businesses and streamline overall corporate structure
- ACA has committed to boosting diversity across workforce including board, C-suite and frontline

Shareholder Engagement is an Essential Component in Tipping the Weighing Machine Towards Sustainable and Profitable Outcomes

- Shareholder engagement is an essential component in tipping the long-term weighing machine towards sustainable corporate performance
- As shareholder activists, Ides is often presented with an opportunity to remedy two common public company issues:
 - The Agency Problem
 - The Collective Action Problem
- Value Investors are also uniquely positioned to act as a countervailing force against disengaged fiduciaries and disengaged shareholder bases, threats to long-term corporate sustainability
 - We do deep dives, so we can ask tough questions
 - We seek to reduce risk and drive safe, steady and profitable growth
 - We are long-term – even when they want us to, we often don't go away!
- Consider:
 - How do you use your voice as an owner?
 - How do you vote your proxy?
 - How do you exercise the tremendous responsibility that comes with the privilege of being an asset owner?