



# Russell Investments Communiqué

Our perspective on current and emerging investment issues

## The evolution of multi-asset

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THIRD QUARTER 2016



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EXECUTIVE VIEW

# The only thing that remains constant is change

By: Kevin Turner, CFA, Managing Director, Global Head of Client Strategy & Research


Have you taken the time to think back on how things used to be – how we watched TV as it aired rather than via DVR or on-demand, or how we communicated over the phone rather than through email or mobile apps? I remember having some hesitation around early adoption, but I can certainly say now that I prefer to watch TV without commercials, and have come to detest voice messages!

The investing landscape, and the tools at our disposal, is clearly not standing still either. As the investment environment continues to present challenges and grow more complex, it is important to embrace opportunities for change and greater flexibility in order to achieve the outcomes we desire.

The lead articles in this issue of Communiqué address two aspects of how our investment approach continues to evolve. In the first, Steve Murray outlines the next generation of individual retirement solutions via adaptive investing; in the second, Rob Balkema and Leah Fuhlbrugge highlight various components of Russell Investments' multi-asset capabilities. In this issue, we also have an overview from Rachel Carroll on some potential market disruptors from demographic changes, and a discussion with Megan Roach and Keith Brakebill on their thoughts about dynamic management within equity and bond portfolios.

While it is interesting to reflect on how our investment portfolios have evolved in the past – similar to thinking about how we used to watch our favorite TV programs – it is also important to take the time to consider how our investment approach needs to adapt in response to current circumstances and future requirements.

Thank you for reading,



Kevin Turner  
Managing Director, Global Head of Client Strategy & Research



Kevin Turner

## INVESTMENT FOCUS

# Adaptive investing – better data makes better solutions

By: Steve Murray, Ph.D., CFA, Head of DC Solutions, Global Client Strategy & Research



Steve Murray

Target date funds (TDFs) are a popular investment solution for defined contribution (DC) plans,<sup>1</sup> providing a diversified, age-appropriate portfolio through a process that requires no participant input. Participants do not need to know how to invest retirement assets nor do they need to frequently check to see if the portfolio requires adjustment. The age-based allocation of TDFs automatically adjusts based on the time remaining until retirement

Russell Investments has developed Adaptive Retirement Accounts (ARA), an adaptive solution customized to each participant's situation. ARA improves on the TDF advice by considering additional inputs such as account balance, salary and savings patterns. Better solutions can be customized for each individual than is possible under the one-size-fits-all, age-based target date approach.

ARA is designed as a Qualified Default Investment Alternative (QDIA) and relies on data that can be collected from plan recordkeeping systems and plan sponsors. ARA also takes into account estimated Social Security benefits. It is designed to work well even for participants who are not strongly engaged in their retirement planning and allows for more comprehensive advice if participants are willing to include information about other retirement resources. To keep participants on target for a successful retirement, ARA adjusts market exposures as participant circumstances change either due to market experience or to changes in salary, savings or other characteristics.

## TYPICAL PARTICIPANTS VERSUS ACTUAL PARTICIPANTS

While glide paths from some providers may still be constructed through a subjective assessment of the "appropriate" amount of risk for participants of each age, Russell Investments and many other providers follow a more quantitative approach.

Our standard glide path is organized around characteristics of typical U.S. DC participants<sup>2</sup> (age at which working life begins, standard retirement age, salary and savings patterns – including employer match), but we also construct custom glide paths based on the characteristics of the participants in a specific DC plan. The custom glide paths incorporate the typical salary and savings patterns for that specific population including the employer match, specific employee mortality assumptions (if appropriate), retirement dates, available DB benefits and other plan-specific information.

<sup>1</sup> Based on the PSCA 58th Annual Survey (Table 81), TDFs serve as the QDIA for almost 75% of plans with greater usage in plans with more participants. Casey Quirk & Associates has estimated total TDF assets at \$760 billion at the end of 2015 and expects that number to grow to \$3.7 trillion by 2019 with 88% of new contributions flowing into TDFs by 2019.

<sup>2</sup> The profile is regularly reviewed as part of the ongoing process in which all Russell Investments' portfolios are governed. Due to the long-term nature of the glide path, changes are infrequent and in response to meaningful shifts in the participant profiles or market conditions. The most recent revision was in 2014 (see Y. Fan, D. Gardner, J. Greves and S. Murray, "Review of Russell's Target Date Fund Methodology," Russell Investments, 2014).

Unlike glide paths that are customized to a population of employees, ARA provides a solution customized to the profile of each participant. Further, the system monitors – via record keeper and plan sponsor data feeds – the evolving characteristics of each participant and responds with customized asset allocation model advice through time.

**Let’s meet four pre-retirees all of whom are 50 years old and 15 years from retirement.**

With TDFs, they all would receive the same allocation – now and all the way to retirement at age 65. Consider the hypothetical information summarized in Table 1, which is readily available from the plan sponsor and plan record keeper and could inform a better strategy for each person.

This example does not take into account all of the characteristics that could be

considered, such as assets held outside of the retirement plan. The financial health of each participant is a combination of account balance and future 401(k) contributions compared with the retirement income to which each aspires.<sup>3</sup> It is clear that participants with large retirement resources relative to their retirement spending goals (whether due to an early start on retirement savings or being fortunate enough to be in the right investment at the right time) are in a better position.

**Jack /** Has the highest salary and presumably the highest retirement income target. Social Security will be a smaller portion of his retirement solution suggesting that a higher replacement rate must be supported by his retirement account. Further, Jack’s deferral rate is lower than either of the other three.

**Jack has the highest salary and presumably the highest retirement income target.**

**Table 1: Asset allocation based on individual characteristics**

	JACK	TAMARA	BILL	CRYSTAL
Age	50	50	50	50
Gender	Male	Female	Male	Female
Salary	\$150k	\$120k	\$85k	\$100k
Deferral rate	4%	8%	8%	12%
Current account balance	\$425k	\$475k	\$475k	\$686k
Target retirement income (annual)	\$120k	\$96k	\$68k	\$80k
Expected retirement income (annual)	\$75k	\$90k	\$74k	\$102k
ARA growth asset allocation	78%	69%	64%	83%
Target date growth asset allocation	68%	68%	68%	68%

Sample allocations are provided for illustrative purposes only and are based on assumptions provided.

<sup>3</sup> Using appropriate discount assumptions, this relationship can be summarized as a funded ratio.

At first glance, those who are accustomed to DB plan allocation patterns may wonder why Crystal would take more risk as a result of being better-funded.

**Tamara /** Tamara’s plan is modestly off course. She is lagging behind her desired retirement income goal, but with 15 years remaining until retirement, she may be able to catch up without incurring unacceptable risk of falling further behind.

**Bill /** Is more or less on target with an estimated retirement income roughly equal to the targeted amount.

**Crystal /** Is in a fairly strong position with a high deferral rate and account value relative to the projected retirement income.

Unlike the allocation to growth assets recommended by a target date glide path, the allocation strategy identified by ARA (shown near the bottom of Figure 1 and the logic of which we will address in the next section) varies among the four.

#### THE ARA ALLOCATION PATTERN

The ARA allocation pattern for the hypothetical participants in Table 1 is illustrated in Figure 1. The horizontal axis measures the participants’ retirement readiness. Retirement readiness is closely related to account balance, but it also takes into consideration planned future savings and the targeted retirement income level. For simplicity, it may be helpful to think of this axis as the participant’s current account balance, which is typically the most important component of the relationship and is also the one that varies most widely as market returns are realized through time.

Each of the example participants is plotted on the chart to help illustrate the logic behind the pattern of allocations.<sup>4</sup> The V-curve in Figure 1 reflects the best solution for participants who experience risk as outcomes that fall short of their desired retirement income level. It is important to note that this V-shaped pattern is a reflection of the recommended allocations and not an input to the model.

**Crystal /** Has a healthy surplus compared to the \$80k she seeks. Her expected retirement income is a bit more than 25% higher than her target. At first glance, those who are accustomed to DB plan allocation patterns may wonder why Crystal would take more risk as a result of being better-funded. The answer lies in the fact that, unlike the situation for a DB plan sponsor, Crystal can directly benefit from this surplus and has an incentive to grow it over time as long as she does not imperil her ability to accomplish her targeted retirement income. This buffer allows her to assume modestly greater market risk than her peers. Alternatively, she could revise her goals to seek higher income or for estate-planning purposes.

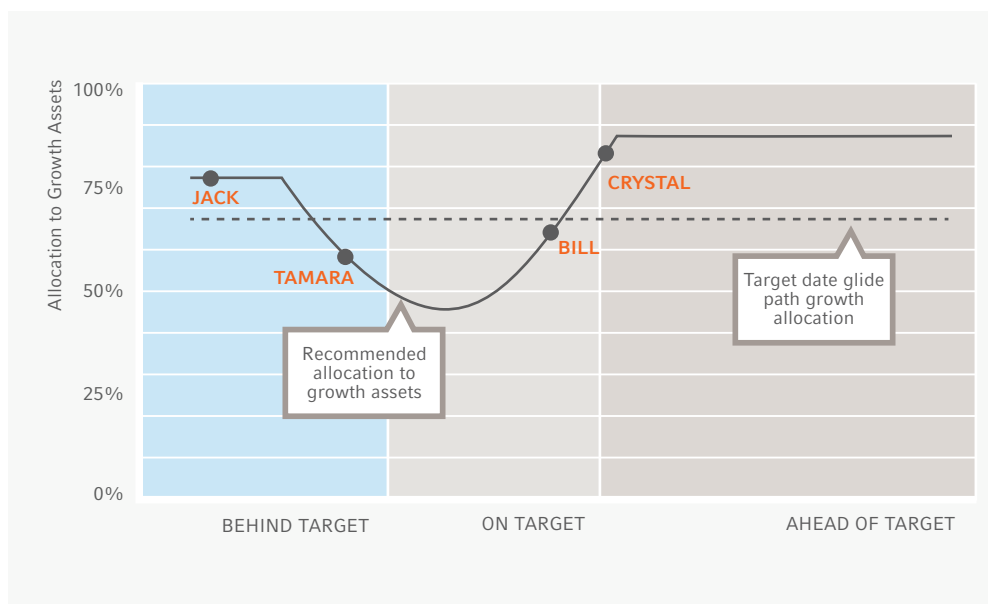
**Bill /** Is on target to achieve his retirement goal and should maintain a significant exposure to growth assets. Nevertheless, he must maintain a somewhat more cautious stance than Crystal.

**Tamara /** Is behind target, but is likely to catch up over the remaining 15 years through a slightly higher growth allocation than would be recommended if she were better funded.

**Jack /** Is well behind where he should be at this point in his career. His recommendation hits the left-side guardrail, which limits growth allocations for participants who are materially underfunded. Jack would benefit much more from a review of his savings rate, his retirement date and retirement income choices than from seeking greater investment risk.

<sup>4</sup> ARA determines the allocation strategy through an optimization process that penalizes shortfalls relative to the targeted retirement income. Large shortfalls receive much bigger penalties than small ones reflecting most participants’ sense that missing the target by a small amount is disappointing, but missing by a large amount may be disastrous. A more detailed description of the ARA model and solution process can be found in Fan, Y., Murray, S. and Pittman, S. “Optimizing Retirement Income: An Adaptive Approach Based on Assets and Liabilities,” *Journal of Retirement*, vol. 1, no. 1, Summer 2013. Pp. 124-135.

Figure 1: Allocation pattern for example participants



Russell Investments' Adaptive Retirement Account solution is designed to improve on target date glide path solutions through its focus on the characteristics of each participant.

### What will happen to the allocations of each example participant through time?

If market returns are high, Crystal will find her surplus increasing, and will increase her growth allocation until she hits the upside guardrail. Bill will gradually increase his growth allocation as his position improves. Tamara will seek a lower growth allocation as her plan to secure retirement readiness allows her investments to work a bit less to catch up. Jack is likely to stay at the allocation limit since an extremely strong market would be needed to improve the viability of his plan.

The allocation shifts are not a market timing exercise.<sup>5</sup> Tamara does not become more conservative because she feels the high market return is likely to be followed by a move in the other direction, and Bill does not increase his growth allocation based on an assumption of continuing market momentum. The allocation

responses are directly tied to the characteristics and retirement readiness of each participant.

### CONCLUSION: CUSTOMIZATION AND ADAPTIVITY BENEFIT PARTICIPANTS

Russell Investments' Adaptive Retirement Account solution is designed to improve on target date glide path solutions through its focus on the characteristics of each participant including not just age but account balances, gender, desired retirement income, salary and savings patterns. These data are already maintained by the plan record keeper and plan sponsor. The adaptive nature of the solution provides allocations that are responsive to changes in each participant's situation through time and are designed to improved opportunities to achieve the retirement income goal.

<sup>5</sup> Russell Investments' strategic forecasts, which are updated semi-annually, are employed in the ARA analysis. These long-term return assumptions vary from each update, but are reflective of equilibrium market behavior and evolve slowly over time. The projections or other information generated by this analysis regarding the likelihood of various investment outcomes are hypothetical in nature, do not reflect actual investment results and are not guarantees of future results. The assumptions do not take fees into consideration and all returns are assumed gross of any fees, including ARA fees.

## CLIENT FOCUS

# The evolution of multi-asset

By: Rob Balkema CFA, Senior Portfolio Manager and Leah Fuhlbrugge, CFA, Portfolio Analyst



Rob Balkema



Leah Fuhlbrugge

Multi-asset investment products seem to be everywhere these days; a sign of their current appeal is that the label is being applied to all sorts of products, including a few that two years ago would more likely have been called “core plus fixed income” or “global equity.”

As multi-asset portfolio managers, we believe the increased interest is a natural response to the low-return environment we find ourselves in, and to investors’ increased focus on specific outcomes such as improving funded status or meeting spending targets. Investors cannot afford to ignore sources of return, cannot afford to take risks they do not believe will be rewarded and must be as efficient as possible in the implementation of their strategies. Multi-asset investment products can help on all of these fronts.

## DESIGN: GETTING EXPOSURE TO THE THINGS IN-BETWEEN

Three years ago, we presented to the Russell Investments Institutional Summit on the subject “making good on the promise of multi-asset investing.”<sup>6</sup> This year, we were back to present on “the evolution of multi-asset.” If truth be told, much of what we said three years ago still applies: the benefit of clear objectives, the importance of a total portfolio view and the need for a dynamic approach. But the products we launched in 2012 now have four years behind them, and the way the strategy is being managed in practice has evolved.

In terms of the design of multi-asset portfolios, true multi-asset is built on a foundation of a diverse range of exposures to assets and strategies, each of which plays a precise role in meeting a client’s desired outcome. Some of these asset classes cannot easily fit into a traditional portfolio built from a series of asset classes or product sleeves, each selected by the asset owner. Most often, this is because some asset classes or exposures are not modeled in a typical set of long-term capital market assumptions, or because a quarterly investment committee meeting cycle does not allow enough time for new strategies to be properly researched or understood. The largest institutions not included, it’s impossible to effectively select, track and manage separate exposures to the full range of return opportunities (e.g., exposures such as global infrastructure, global REITS, commodities, global high yield, bank loans, emerging market debt, volatility and currency – all of which now feature in our flagship U.S. multi-asset products). In a world with such a range of choices, getting the best thinking in strategic asset allocation into portfolios in a timely manner is a key benefit of the multi-asset approach.

<sup>6</sup> See “Making good on the promise of multi-asset investing” in the Q3 2013 edition of Communiqué.



Creating the structure is just the start. Each of these exposures ought to be managed dynamically (we'll return to that in a moment) and new exposures ought to be added over time. This type of broad diversification means that when one slice of the portfolio is dragging – as commodities did in the recent past – the exposure is not too large, and there are other parts of the portfolio that can carry you through.

**CONSTRUCT: GETTING THE BEST OF MANAGER RESEARCH**

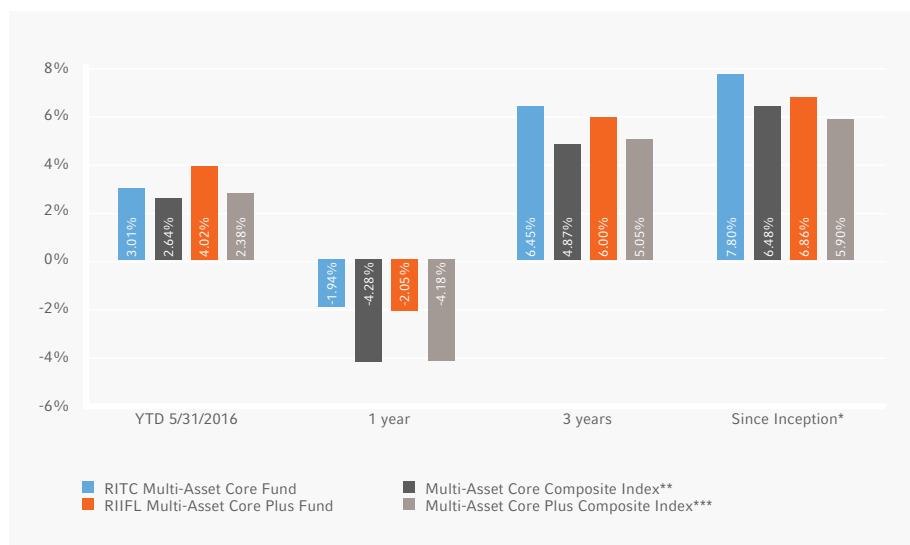
Having set the overall strategy, the portfolio needs to be built. As part of

this “construct” phase, we look for the best available active management opportunities. Once again, to take advantage of the full breadth of what’s available, it pays to take the multi-asset approach.

Consider the example of the money manager we hired following a period of performance, which saw it underperform its market benchmark by 80%! That sort of concentrated risk and extreme volatility can be too much to bear if you’re looking at that line item in isolation, or even if you’re looking at the slice of the portfolio it comprises (this was a global equity

By approaching portfolio construction and risk management with a total portfolio view, it is possible to gain better alignment between the portfolio and the end goals being pursued:

**Figure 1: Russell Investments Multi-Asset Fund performance (as of May 31, 2016)**



The RITC Multi-Asset Core Fund is a fund of the Russell Investments Trust Company Commingled Employee Benefit Funds Trust; it is not a mutual fund.

The RIIFL Multi-Asset Core Plus Fund is a fund of the Russell Investments Institutional Funds, LLC; it is a private placement. This is not a mutual fund.

\*Inception for RITC Multi-Asset Core Fund is 4/1/2012. Inception for RIIFL Multi-Asset Core Plus Fund is 2/28/2013.

\*\*The Russell Investments Multi-Asset Composite Benchmark consists of 75% Russell World Cap Index 50% Hedged, 5.0% Bloomberg Commodities Index, 5.0% FTSE EPRA/NAREIT Developed Real Estate Index(Net), 5% S&P Global Infrastructure Index, 7% Barclays US Aggregate Bond Index and 3% Barclays US 1-3 Month Treasury Bill Index.

\*\*\*The Russell Investments Multi-Asset Core Plus Fund Composite Benchmark consists of: 75% Russell Global Index 50% Hedged, 4% Bloomberg Commodity Index Total Return (USD), 4% FTSE EPRA/NAREIT Developed Real Estate Index (Net), 4% S&P Global Infrastructure Index Net (USD), 5% BofAML Global High Yield 2% Constrained Index TR USDH, 5% JP Morgan Emerging Market Bond Index Global (USD) and 3% Barclays U.S. 1-3 Month Treasury Bill Index.

Performance shown is gross of fees. Fees will reduce the overall performance of the funds. Indexes are unmanaged and cannot be invested in directly. Past performance is not indicative of future results.

manager). But multi-asset's holistic view means that we allocate risk at the total fund level, not asset-class-by-asset-class. So we were able to hire the manager knowing that its risk is diversified elsewhere in the portfolio – and the early results have paid off handsomely to date.

By approaching portfolio construction and risk management with a total portfolio view, it is possible to gain better alignment between the portfolio and the end goals being pursued: What's best for the total portfolio is not necessarily the same as what's best if each part is being managed independently.

#### MANAGE: BEING DYNAMIC ACROSS AND WITHIN ASSET CLASSES

The strength of the case for each strategy and each asset class fluctuates over time, and the multi-asset approach allows for dynamic portfolio management not only within asset classes, but also across them. (See the article later in this issue of Communiqué for more on how Russell Investments approaches dynamic portfolio management.)

For example, in early 2016, we took the view that exposure to high-yield credit (corporate-issued bonds) was more attractively priced than exposure to the stock of those same corporations (equity). So, at the margin, we preferred exposure to corporations' debt than to its equity. Timely and precise changes to a portfolio such as this can add up to significant value-added over time.

Behind a fully-developed multi-asset approach, there needs to be a world class implementation capability. Credit exposure, for example, can be expensive to trade if insufficient attention is paid to how positions are built and managed. The dizzying choice of trading instruments available to today's investor includes not only physical securities and derivatives such as futures, but also more complex

exposures such as options or other complex derivatives. Each can play a role in the essential task of cost-effective implementation.

#### CONCLUSION: A STRENGTHENING CASE

So, with the ever-growing complexity and ever-widening range of choices available to institutional investors, we believe that the case for multi-asset management will continue to strengthen in the coming years.

When we first started presenting the case for multi-asset to U.S. clients in 2011 and 2012, our flagship U.S. multi-asset funds had only recently been launched, and had no live track record to point to. This year, we were able to show not only a track record that was above the benchmark (as of 5/31/2016,) but one which chalked up positive contributions from each of the design-construct-manage elements around which we have built our process. (See performance details at end of this article.)

We expect that this sector will continue to evolve in the years to come, for example, through ever-greater customization to particular goals such as a growing focus (for pension plan investors) on "surplus space" results.



STRATEGY

TIMING

IMPLEMENTATION

## OPINION

# Market disruptors

By: Rachel Carroll, CFA, Managing Director, Consulting

At our recent Summit conference, I had the opportunity to host a manager panel where we discussed how changing demographics were likely to alter the investment landscape in the future. Through this session, which explored the impacts on both developed and emerging markets, one key idea stood out to me: Changing demographics will drive the need for adaptation at both the company and the country level in the coming decades.

Developed markets are facing a slowing of population growth, some to the point where birth rates are now below the replacement rate for the population. This translates to both a shrinking and aging workforce.

Emerging markets are becoming an increasingly large proportion of the world's population, and of the global GDP. These markets are seeing the urbanization of their economies as workers transition from the fields to the factories.

What do these changes mean? For developed markets, this could mean that companies may need to transform their processes to accommodate an older workforce. Patrick Kaser from Brandywine Partners told an interesting anecdote about a BMW factory in Southern Bavaria that has created a factory that only uses workers over the age of 50. The factory has incorporated new technology to make an efficient and productive factory line that capitalizes on the age and experience of its employees.

For emerging markets, there is still the benefit of a young and growing labor force, but the door opens for labor arbitrage opportunities. The urbanization of cities is an important driver. Workers are moving from performing agricultural jobs in outlying areas into manufacturing jobs near the city centers. These countries are adapting and providing fertile ground for companies to participate in the shifting economy.

What kinds of opportunities do these adaptations present? Within developed markets, it is obvious that healthcare becomes increasingly important as a population ages. Services and experiences, such as travel, are also attractive in populations where there are many two-income households and higher levels of disposable income. For emerging markets, the adaptations lead to opportunities in areas such as real estate and consumer stocks as new urban centers are developed and a newly non-agrarian workforce is setting up more household units than before.

For both developed and emerging countries, one area that was likely to be the beneficiary of adaptation was universal: technology. As James Johnstone from RWC Partners phrased it, "Technology is the heart of what drives the world." ▀



Rachel Carroll

▀ It is not the strongest of the species that survives, nor the most intelligent that survives. It is the one that is most adaptable to change.

Charles Darwin  
(attributed)

## Q&amp;A

# Dynamic portfolio management

With: Megan Roach, CFA, Portfolio Manager  
and Keith Brakebill, CFA, Senior Portfolio Manager



Megan Roach



Keith Brakebill

## Q1: RUSSELL INVESTMENTS HAS BEEN MANAGING PORTFOLIOS FOR OVER 35 YEARS. HOW MUCH MORE DYNAMIC IS THAT PROCESS TODAY THAN IN THE PAST?

**Megan (M)** We are much more hands-on in our approach today. With the monitoring systems that now exist, and so many opportunities to adjust exposures, we're able to directly manage portfolio positioning more precisely than ever, whether it's factors, countries, sectors, industries or currencies. Behind this is the recognition that, in a low-return environment, investors cannot afford to ignore opportunities to improve returns, however incremental, and we cannot afford to take risks that we don't expect to be compensated for. Our dynamic positioning is designed both to add incremental returns and to manage unwanted risks that we don't expect to get paid for.

**Keith (K)** Yes. As a fixed-income manager, for example, there's nothing that says "opportunity for dynamic management" to me quite like the history of high yield bond spreads. When that spread over Treasuries moves out to extremes, we cannot be sure how far it will go, but we can be confident that it won't stay there for too long. Until the past few years, we had limited means of acting on that signal, but we can be much more nimble today.

## Q2. WHAT ARE THE INPUTS YOU TAKE INTO ACCOUNT IN YOUR DYNAMIC POSITIONING?

**(M)** We try to gather information from a wide range of sources to ensure we get as full a picture as possible. There are five main inputs (see figure 1). Some of these are quantitative, and some are qualitative. At different points in time, some become more important than others. When two or three of the inputs align with a similar indication of opportunity or risk, we would consider this a meaningful signal for potential action.

## Q3. COULD YOU RUN US THROUGH AN EXAMPLE OF HOW THIS WORKS IN PRACTICE?

**(K)** Credit is a good example. That's an exposure where we hold a clear strategic belief: We believe credit exposure is systematically rewarded. But that exposure was de-emphasized for a period as valuations became unattractive. Then, over 2015 and into 2016, the signals became more positive. Our strategist team started to see this area as attractive, and we became more confident that there would be back-stop purchasers of our positions if we needed them. And then signals from our sub-advisors (the external money managers we use) were also positive. So, we started to add exposure to credit.

#### Q4: MEGAN, HOW DIFFERENT IS IT WITHIN EQUITIES?

(M) Conceptually, the process is the same but we've had a couple other inputs shape our preferred positioning this year. In equities, our strategic beliefs are focused on return premiums like value, quality, momentum, size and volatility. For each of those factors, we use a quantitative framework called "CVS" that focuses on the economic Cycle as well as current Valuation levels and market Sentiment. For example, from 2015 into 2016, we've seen that CVS analysis point to quality stocks being as attractive as they've been since 2008 in the U.S. market. That, coupled with chronic active manager sector biases that exist – especially in U.S. small cap portfolios – led us to temper our weight in lower quality and more volatile sectors, such as energy and industrials, instead favoring underrepresented and more profitable sectors, such as utilities and financials. That had a dual intent: enhancing returns by accentuating the sub-advisor managers' active stock positions, while reducing risk by managing the unintended factor and sector biases.

#### Q5. AND HOW EXACTLY ARE THESE POSITIONING STRATEGIES IMPLEMENTED IN PRACTICE?

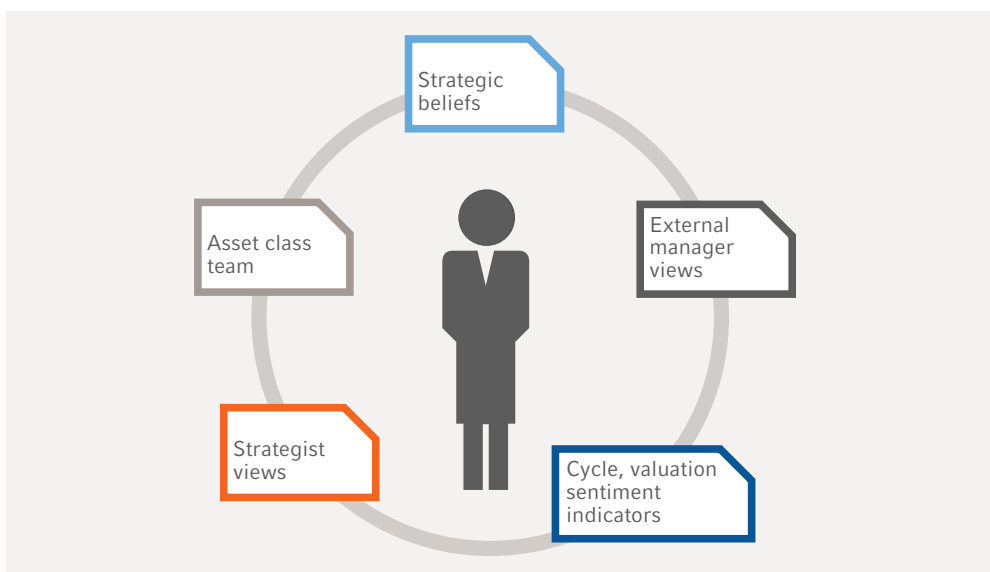
(M) There are three main levers we have in managing multi-manager portfolio exposures. One is to change the money managers, which takes time and happens fairly infrequently. The second is to adjust manager weights. The third is to take direct portfolio positions. For the quality factor exposure I just mentioned, we created a long-only portfolio of physical securities optimized to create the overall factor and sector exposures we wanted at the total portfolio level.

(K) Whereas for the credit exposure, it made more sense to use a credit derivative overlay. For that exposure, this was the quickest route to the size of exposure we wanted. So, in each case, we'll look at the implementation choices available and use either derivatives or physical securities depending on the costs, liquidity and flexibility.

Thank you,  
Megan and Keith.

For the quality factor exposure... we created a long-only portfolio of physical securities optimized to create the overall factor and sector exposures we wanted at the total portfolio level.

Figure 1: Five inputs for dynamic positioning



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## GREAT MOMENTS IN FINANCIAL HISTORY

# Circa 1935: Marjorie Merriweather Post puts the “G” in ESG

By Leola Ross, Ph.D., CFA, Director, Capital Markets Research



Leola Ross

### SOME REFERENCES

<http://www.treehousefoods.com/sustainability.html#Sustainable>

<http://www.postholdings.com/about/>

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<sup>7</sup> Marjorie Merriweather Post had five surnames in her life. From 1905 to 1919 she was Mrs. Edward Bennett Close, from 1920 to 1935, Mrs. Edward Francis (E.F.) Hutton, from 1936 to 1955, Mrs. Joseph E. Davies, and from 1958 to 1964, Mrs. Herbert Arthur May. Between her latter two marriages and after her final marriage, she formally reclaimed “Post.” In this note, I refer to her as “Post” for consistency.

<sup>8</sup> Rubin, Nancy (1995, 2004), “American Empress: The life and times of Marjorie Merriweather Post,” iUniverse Star, p. 109.

<sup>9</sup> Lettie Pate Whitehead joined the board of the Coca-Cola Company a year earlier. The Coca-Cola Company was listed on the Dow Jones Industrial Average from 1932 to 1935. The General Foods Company was listed as Postum Incorporated in 1928 and remained until 1982. The Coca-Cola Company rejoined the list in 1987.

<sup>10</sup> As reported in Rubin, Nancy (1995, 2004), “American Empress: The life and times of Marjorie Merriweather Post,” iUniverse Star, p. x.

Today it is commonly discussed that having women on corporate boards is healthy for corporate governance—the “G” in Environment, Social, and Governance or ESG. In the early 1900s, having a woman on a corporate board was unheard of—even if the woman owned the majority of the company.

Marjorie Merriweather Post learned the family business from her father, C.W. Post. She glued cereal boxes for him, oversaw operations and joined him for corporate meetings. When Post<sup>7</sup> inherited Postum Cereal Company, after her father’s death in 1914, two of her uncles ran the company and her board representatives were her first two husbands.<sup>8</sup> By the early 1920s, Post suspected that the uncles were mismanaging Postum. She appointed a skilled attorney and friend to senior company management – soon after the elder Posts “retired gracefully.”

Later, Post took an interest in Birds Eye frozen foods, which she believed would help relieve a great burden on housewives by providing easy-to-prepare healthful foods. For years, she pressured her second husband, E.F. Hutton, then chairman of the board, to acquire Birds Eye. Through his acquisition and several others, Postum Cereal became General Foods Corporation and company profits soared throughout the 1920s.

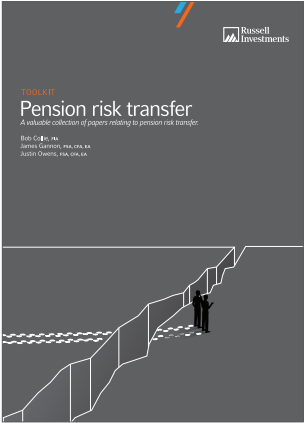
By the mid-1930s, the highly diversified General Foods Corporation had weathered the Great Depression by remaining profitable the entire time. Post ensured that all stockholders received dividends every year, even loaning cash to the company on one occasion. Finally, after divorcing Hutton, Post joined the board of directors in 1935 and became one of the first women to sit on a U.S. corporate board;<sup>9</sup> yet her impact on the governance of the organization started decades before.

She enjoyed serving on the board for 25 years, attending meetings and speaking up when she had concerns. During her years, Post was a shrewd businesswoman, an active socialite, a political activist, and a passionate philanthropist. “‘While she always lived like a queen,’ observed The New York Times, ‘she has always given like a philanthropist.’”<sup>10</sup>

Fun after-facts: Post’s father was an acquaintance of Henry Ford, who put the “S” in ESG, but refused to invest in his horseless carriages, and her third husband won a lawsuit against Ford Motor Company in 1927 over a tax issue. After many corporate actions over the last century, Post Brands is currently owned by TreeHouse Foods. TreeHouse proudly encourages crop rotation in their supply chain—recall that George Washington Carver put the “E” in ESG with his scientific research on crop rotation.

RESEARCH FOCUS

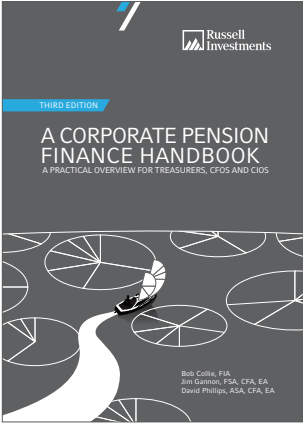
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