FOUR PRINCIPLES FOR A BETTER CAPITAL ALLOCATION AND STEWARDSHIP MODEL

The capitalist economy uses our collective savings to fund privately owned business, creating wealth that has resulted in significant advances in human health, lifespan and well-being. That system is flawed, however, both in its distribution of those benefits and in some of its byproducts. In certain cases, the social and environmental risk of such byproducts threaten many of the advances our economy has made. This system was largely self-organized, and many of its flaws are the result of historical accident, convenient approximations that no longer hold, temporally incomplete feedback and path dependence. Our economy has reached a juncture where, in order to preserve the benefits of this system, certain of those flaws must be addressed by the implementation of the following principles: **True Cost Accounting, Humane Investing, Utilizing Collective Action and Rejecting Harmful Competition for Capital**:

1. **TRUE COST ACCOUNTING.** Relevant impacts of decisions made within the system must be accounted for within the system. The current system encourages investors, intermediaries and businesses to make decisions that increase financial return to the investor, customer or business without accounting for external costs imposed on others. Rules that were developed to benefit savers by focusing on the clearest signals relevant to their own return, such as shareholder primacy and Modern Portfolio Theory, now bury critical information that should be part of the decision-making calculus for the diversified, long term investors who make up most of the investing class. This leads to decisions that have overall negative values to the savers and other shareholders.

2. **HUMAN INVESTING.** Investment and business decisions are made on behalf of the human beings who are beneficiaries of the funds invested and should reflect common human values. Because the chain of investing that runs from individuals through asset owners, asset managers, other intermediaries, corporate directors and corporate managers is long and diffuse, investment capital may be used in ways that exploit humans beings, the environment or animals in ways that the ultimate beneficiaries would object to, regardless of cost. Where there is widespread agreement as to certain values (such as the unacceptability of slave labor), business and investing decisions should reflect such agreement as a principle separate from financial return.

3. **UTILIZING COLLECTIVE ACTION.** Participants in the investing system should avoid freeriding and commons grazing. Many aspects of value that are ignored under doctrines

like shareholder primacy are collective goods, such as the ecosystem services delivered by a healthy environment or the social stability created by fair distribution of wealth. Investors, intermediaries and companies should participate in efforts at collective action to maintain the value of these resources. This may mean that investors (1) cause companies to refrain from lobbying against efforts to impose limits on otherwise profitable activity in order to preserve or enhance common resources, and (2) impose similar limits on investees when governments do not act.

4. **REJECTING HARMFUL COMPETITION FOR CAPITAL.** The systems we use to allocate and steward capital should be updated. The market-based economy has achieved great strides in human thriving but needs significant adjustment to reflect an increasingly interdependent economy that challenges planetary boundaries and the requirements for human thriving. Operating systems like Modern Portfolio Theory and shareholder primacy that lead investors to focus on static company ROI and companies to compete for capital with irresponsible practices must be replaced with systems that account for all costs and benefits of capital allocation and stewardship. Such systemic changes must reach across equity classes, so that less-regulated markets like private equity and venture capital do not have opportunities to externalize costs made unavailable to companies subject to public reporting regimes.

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