CURRENTS
FALL 2021

A NOTE FROM JILL

Dear Friends and Clients,

September 10th marked my nine-year anniversary with O'Brien Wealth Partners. Traditionally, ninth anniversaries are commemorated with gifts of pottery and willow wood. Pottery represents a simple, natural element that has been transformed over time (with lots of TLC) into a beautifully finished piece. Like potters, our team has worked together to mold our business, and we are well aware that, like pottery, what we have built is fragile and must be cared for properly in order to last a lifetime. Willow trees produce branches that are strong yet flexible and signify resilience. As a team, we are prepared to help our clients and each other weather life's inevitable storms. We remain flexible in our thinking as we look to the future and structure our portfolios, planning, and firm to meet your needs over the next decade.

When I look back over the past nine years, and the myriad changes that we have made, I am excited to see how our firm continues to evolve. From a major office move (after 26 years in the same space) that involved a build-out from the studs, to a new name and logo, to more advanced financial planning and research technology, to our Sustainable Portfolio, and to the development of the talented team I am proud to call my colleagues – it has been an action-packed time. Add to that a shift to remote work during a global pandemic and how it has changed the ways in which we can communicate with our clients, and we are well-positioned to envision a hybrid model of work that optimizes the benefits for both our clients and our staff.

We hope that you and your families are safe and healthy. As always, we welcome your thoughts and suggestions as to how we can continue to improve our business and your experience. We hope you enjoy this issue of Currents and look forward to seeing many of you in the near future.

Jill

Jill Fopiano, CFA, CFP®
President, CEO, and CIO

SHAREHOLDER ADVOCACY IN ESG INVESTING

By Lauren Higgins and Jonathan Smith

Businesses make important decisions every year, from changes in board or management teams to decisions on the way business is done. Some decisions may even have global ramifications, like whether or not to make and disclose political contributions or how to come to terms with their impact on climate change. One of the ways shareholders can provide a check on a corporation's authority surrounding these decisions is through proxy voting or, in some instances, more directly through shareholder advocacy. The latter refers to the concept that larger shareholders can voice concerns with company operations and seek solutions with management that will benefit the company and its stakeholders. If these requests are ignored, investors can file shareholder resolutions to take the idea themselves to the broader ownership base.

When we consider investments for our ESG (Environmental, Social, and Governance)-aware portfolio, we seek managers that proactively communicate with the leadership teams of the companies they invest in on material environmental, social, and governance related issues. It is important for managers with a focus on ESG to take an active role in raising concerns with companies in order to influence decisions that may affect all stakeholders, which may include shareholders, employees, and the broader community. The following examples of shareholder advocacy in our ESG portfolio demonstrate how this approach can be used to effect positive change.

Calvert: A Focus on Diversity

Calvert Investments, a long-standing mutual fund company, focuses on engagement as a key pillar to their process and offering. Their team engages with select companies to identify opportunities to improve a company's management of ESG-related risks and opportunities. In 2019, **Calvert engaged with over 30 U.S-based companies that lacked diversity in board and executive leadership with the goal of working with these companies to help make improvements and increase transparency**.

This effort stemmed from Calvert's research that found companies with at least two female board members and who also meet Calvert's standards for ethnic diversity have performed better financially than less diverse companies (*Chen*). Of the 30 companies contacted, only 6 did not initially respond prompting Calvert to file shareholder resolutions.

"It is important for managers with a focus on ESG to take an active role in raising concerns with companies in order to influence decisions that may affect all stakeholders, which may include shareholders, employees, and the broader community."

Shareholder resolutions allow investors to raise issues with the broader investor base and often force companies to take action. In response, all six companies – which range from financial services, insurance, and tech – are making commitments to improve their boards and internal diversity.

(continued on page 4)

Lauren Higgins, CFP®, CIMA®
Senior Advisor
Principal

Jonathan Smith
Investment Research Analyst

O'BRIEN WEALTH PARTNERS

DID YOU KNOW?

- In the past three years, investors have filed hundreds of shareholder proposals to proxy votes at shareholder meetings on issues ranging from Corporate Political Activity to Climate Change to Executive Pay. (US SIF Foundation, ISS ESG, Sustainable Investments Institute)
- According to a 2017 T. Rowe Price survey, **69%** of parents have some reluctance when it comes to talking about money with their children. And only **23%** of kids say they talk with their parents frequently about money. (troweprice.com)

5 QUESTIONS ABOUT... QUALIFIED CHARITABLE DISTRIBUTIONS (QCDs)

By Tim Pilczak

1. What is a Qualified Charitable Distribution (QCD)?

A QCD is a direct transfer of pre-tax funds from an IRA to a qualified charity, defined by the IRS tax code as a 501c3 organization. Unlike a regular distribution from an IRA, the QCD amount is not subject to ordinary income taxation. QCDs may be exercised from IRAs, including SEP and SIMPLE IRAs that are not active. Employer-sponsored plans are not eligible for QCDs.

2. Are there age based rules for QCDs like there are for Required Minimum Distributions (RMDs)?

Yes. Individuals that have a qualifying IRA and are over the age of 70.5 remain eligible for QCDs, even though the age for RMDs was recently increased from 70.5 to 72. Not only can QCDs satisfy your RMD, they may even exceed the RMD amount as long as they do not surpass the annual limit. QCDs are also available to IRA beneficiaries that are over the age of 70.5.

3. What is the annual dollar limit for a QCD?

The annual limit for QCDs is $100k per person per year. Married couples can exercise $100k of QCDs each as long as each person qualifies.

4. What tax considerations are there when considering a QCD?

Taxpayers do not need to itemize deductions to use QCDs. However, the standard Form 1099R that clients receive during tax filing season will not separately identify and code QCDs. It is paramount to retain documentation to validate the QCD transfer(s) and ensure that the tax return reflects the appropriate distribution method. At O'Brien, we have tools to help clients track their QCD activity.

We also consider it best practice to work with those who prepare our clients' tax returns before deciding to use a QCD. That way, we can make sure that our clients fulfill their charitable inclinations in the most tax-sensitive and strategic way possible.

5. What factors should clients be aware of when considering a QCD?

- Eligible QCD donors cannot receive any type of benefit for their gift. For example, receiving tickets to an event would void the QCD eligibility.
- Not every charitable cause or organization qualifies for QCD status. Please talk with your accountant to confirm eligibility.
- The funds must be transferred directly from the IRA to the charitable organization. In other words, the client can never receive the funds first.

Tim Pilczak, CFP®, EA

Senior Advisor

TALKING TO YOUR CHILDREN ABOUT MONEY

By Gina Coletti

One of the responsibilities of parenting is teaching our children about money. A good first step is to lead by example, when the opportunity arises, but there are many proactive steps we can take to encourage good habits. When they are young, we can show them the worth of money by educating them on how money is earned and spent. We can teach them about budgeting by giving them an allowance and teaching them how to save for something they want.

> "We find creating a budget is an extremely helpful tool in gaining self-awareness and financial literacy."

Teaching our children to have an appreciation for money will set them up for financial success as adults. In addition, there may be added responsibility as you age to include your children in larger family conversations about money. This includes inheritance and helping you manage your finances. With that being said, each child is different and we have to approach each situation differently. Some children will be spenders, some savers, and a host of other behaviors in between, but most important is the communication.

As our children become adults, it is important to understand and acknowledge their relationship with money. We work with many young adults on budgeting and managing money. We find creating a budget is an extremely helpful tool in gaining self-awareness and financial literacy. Some will create a budget once and stick by it to the penny, while others struggle month after month and need extra guidance. Beginning this process early helps develop good saving and budgeting habits that will serve children well into their adult working lives. In addition, this can be a useful tool to gain a better understanding of their financial maturity. Understanding their financial maturity will guide you in how and when to talk with them about any inheritance, and whether it is appropriate to bring them into your own finances.

Your estate plan, including asset titling, will determine what and when assets transfer to your children. It is very important to review this at least annually, as situations can always change. You might consider creating a trust for a child you think would be better cared for by not receiving inherited assets outright. Many parents use this technique to ensure a responsible adult or professional will be available to continue to provide financial oversight and guidance to their children after they have gone. Talking with your children about this may be tricky and we are available to facilitate these conversations.

> "...each child is different and we have to approach each situation differently... but most important is the communication."

Many of our clients bring their adult children to our investment meetings. Depending on our client's goals for their children, we are able to educate them about financial markets, retirement planning, their parents' estate plans, and/or any inheritance they may be entitled to. Hopefully, this is building on the foundations they have. Opening the door for communication can be a helpful tool in deciding how and when to gift to your children and/or ask for their help with your own finances. As we age, many of us will look to our children to help oversee our finances.

Gina Coletti, CTFA

Senior Advisor

WHY INVEST IN EMERGING MARKETS?

By Austin Litvak

Since the Global Financial Crisis (GFC), emerging market (EM) stocks have underperformed U.S. large cap stocks by a whopping 300%[1]. And yet, despite that mammoth gap, we recently increased your EM exposure.

If the proverbial coin flip has come up heads ten times in a row, why now expect tails? Just because a trend has existed for an extended period does not mean we should assume it will continue indefinitely. While U.S. stocks have outperformed of late, during the 2000s prior to the GFC the opposite was the case. During the dot-com bubble the U.S. outperformed. And in the early 1990s it was once again EM. In other words, past performance is no guarantee of future returns.

> "...roughly 60% of EM funds outperformed their benchmark (net of fees) over the past decade. Just 30% of U.S. large cap funds can claim the same ... a larger number of companies and fewer analysts covering each company likely translates into a better opportunity set for finding diamonds in the rough."

But at the same time, being contrarian for being contrarian's sake is also inappropriate. There has to be a catalyst to cause a shift in a trend.

To us, that analysis starts with our secular outlook. Over the long-term, market performance is closely tied with economic performance. Economic performance, in turn, is driven largely by population and productivity growth - how many workers you have and how productive will they be. And on both accounts the outlook is brighter for EMs.

Today, two of the five largest economies are EMs. According to projections[2] in the table below from PriceWaterhouseCoopers, that share rises to three by 2030. And by 2050, four of the top five (in fact six of the top seven) are projected to be EMs.

Projected Gross Domestic Product (PPP Basis)

	2020	2030	2040
1	China	China	China
2	U.S.	U.S.	India
3	India	India	U.S.
4	Japan	Japan	Indonesia
5	Germany	Indonesia	Brazil
6	Russia	Russia	Russia
7	Indonesia	Germany	Mexico
8	Brazil	Brazil	Japan
9	U.K.	Mexico	Germany
10	France	U.K.	U.K.

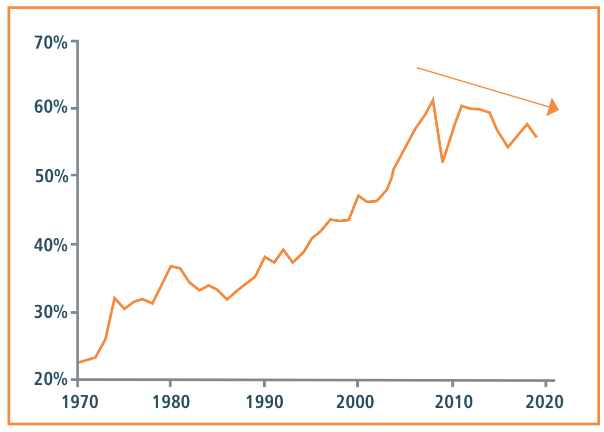
In addition to potentially stronger market returns – or beta – going forward, active managers have more consistently added excess return – or alpha – through stock selection in EMs.

According to NEPC[3], roughly 60% of EM funds outperformed their benchmark (net of fees) over the past decade. Just 30% of U.S. large cap funds can claim the same. We suspect a larger number of companies within the benchmark (1400 vs 500) and fewer analysts covering each company likely translates into a better opportunity set for finding diamonds in the rough.

EMs also have the potential to add greater diversification going forward due to the apparent peak of globalization. Globalization has been a significant positive for parts of the economy and workforce in developed markets for decades. But there are also portions of those economies and workforces that have not benefitted and efforts toward further integration have largely stalled.

For example, as the chart below[4] shows, global trade flows as a share of the economy peaked a decade ago.

Global Trade at a % of the Global Economy



If economies and societies are going to increasingly act independently then there is the potential for economic and market performance to de-couple as well. In that scenario, owning stock exposure to different economies will likely provide better diversification in the future.

Yet all of this speaks to potential longer-term reasons for owning more EM stocks. It does not address why we chose now as the time to increase exposure. That catalyst has to do with our cyclical outlook.

The key cyclical driver of economic and market activity so far in 2021 has been the rollout of vaccinations and the reopening of economies.

> "...EMs today present potential future return and diversification opportunities not found in other areas of the stock market."

The U.S. was among the earliest countries to begin vaccinations and reopening, but that economic tailwind is now shifting abroad, as the rest of the world ramps up their pace of vaccinations while the pace of U.S. vaccinations slows. This shift may lead toward better relative returns abroad.

For these secular and cyclical reasons, we believe that EMs today present potential future return and diversification opportunities not found in other areas of the stock market. As such, we have chosen now to increase your exposure to those markets cyclically and secularly.

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1 Past performance is no guarantee of future returns. You cannot invest in an index. Source: Bloomberg Finance, LP, Standard & Poor's, MSCI, O'Brien Wealth Partners, as of 7/15/21.

2 PPP: Purchasing Power Parity. Source: PriceWaterhouseCooper (The World in 2050), O'Brien Wealth Partners, as of 5/13/21.

3 https://nepc.com/institutional/taxes-and-after-tax-alpha/

4 Global Economy: Global Gross Domestic Product (in $US). World trade sums global exports and imports. Source: United Nations, IHS Markit, O'Brien Wealth Partners, as of 12/31/19.

Austin Litvak,
CFA, CFP®, CBE®, CAIA
Director of Investment Research

TAKE A CLOSER LOOK...

Gina Coletti, CTFA
Senior Advisor

What did you do before O'Brien?

I started my career at The Northern Trust Company as a banker. I helped grow their Boston office from 9 to 18 employees over my 8 years there. Halfway through, I made the switch from banking to trust and estate planning and became a Certified Trust and Financial Planner. I worked with high net worth families in the New England area as part of their financial planning team. I spent the last 3 years at a local law firm, Choate, Hall and Stewart, in their family office service group. There I worked as a Trust and Financial Advisor to multigenerational families.

What drew you to O'Brien?

I quickly learned the O'Brien team was an amazing and intelligent group of professionals I would be lucky to work alongside. With each round of interviews, I felt more and more connected to the O'Brien style of working internally and externally. Their ability to work collaboratively and put the clients' needs first was just what I was looking for.

What is your role?

As a Senior Advisor, my role is to help my clients secure their financial futures. I do this by investing their assets according to O'Brien's best thinking portfolio, helping them plan for near and long term cash goals, reviewing their insurance needs, and helping them understand, update, and implement their estate plans. I act as an integral member of clients' financial team to help ensure they're set up for financial success.

Tell us more about you...

I grew up in Roslindale and studied dance at the Boston Arts Academy High School next to Fenway Park. I have a degree in Criminology from the University of South Florida and spent many years living in the South. I came back to Boston to raise my three daughters, ages 9, 13, and 15. My husband, three daughters, two dogs, and one cat live in Canton. You can find me out running around town while training for a Ragnar, or hanging out in my backyard with friends and family.

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INSIDE

ESG INVESTING *(continued from page 1)*

These commitments include incorporating diversity into governance documents, adding more diverse board members, focusing on their talent pipeline, and promoting diverse candidates. As a result, Calvert withdrew the resolutions and continues to engage with company leadership.

Matthews Asia: Facilitating Conversations Around Water Risk

Matthews Asia, our ESG Emerging Market manager, uses advocacy to communicate with management teams about issues they foresee presenting a problem to long-term business plans. One example centers on corporate disclosures of a company's environmental impact. Matthews Asia's analysts noticed that the Carbon Disclosure Project (CDP), a non-profit charity that advocates for improvements to these environmental corporate disclosures, targeted an Indian electric company in their portfolio, Tata Power. The CDP labeled Tata Power as a "critical company" that could be both threatened by and a key contributor to water scarcity in the future. To better understand how this could impact the long-term results of its investment, **Matthews Asia facilitated a meeting between the CDP, Tata's management, and Matthews' portfolio analysts.** During this meeting, Matthews and the CDP worked together with Tata's management to discuss the impact of water scarcity on their future business plans, and areas for improvement in their water use practices moving forward. In doing so, Matthews forced Tata to come to terms with the economic implications of its environmental habits and identify and address a significant long-term business risk.

Shareholder advocacy is an important criteria for all of our ESG fund managers. Managers who actively vote and engage management on difficult topics promote strong Governance controls and often align with the Environmental and Social pillars of a sustainability-driven portfolio. For ESG clients, we will continue to monitor our managers' willingness to be corporate sustainability advocates and share examples of how your investments influence many of the world's most impactful companies.

Source: Chen, Yijia (2019, October). *Evaluating the financial materiality of gender diversity factors*. Calvert Institute

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O'BRIEN IN THE NEWS:

- **Jill Fopiano** was quoted in a "Retirement Planning Guide" article by moneyrates.com and a CNBC article entitled "Inflation is Continuing to Rise – Here's How It Could Affect Your Money" in June 2021.
- **Austin Litvak** welcomed his third daughter, Ayla, born in April 2021.
- O'Brien welcomes **Jack Martin** as Associate Advisor Co-op and **Emily Dupler** as Client Solutions Specialist Co-op for the fall semester. Both are students at Northeastern University.
- **Lauren Higgins'** family was showcased by the Green Mountain Club for their volunteer work on the Long Trail in VT.
- **Jonathan Smith** and **Alena Taylor** both rescued young adult cats in the past few months.