



THE DANA VIEWPOINT

August 21, 2018

Dow: 25,822

Our Duty

When most people think about the job of an investment manager, they believe it entails deciding which asset classes to invest in, and what securities to purchase and sell within those asset classes. We believe our duty extends beyond those functions to include the voting of company proxies. In some cases this also includes advocating on behalf of our clients for better environmental, social, and governance policies at the companies in which we invest. We manage approximately one billion dollars in strategies that are labeled as socially responsible or ESG (Environmental, Social, and Governance) strategies. In these strategies, we are taking a more active role in trying to influence companies to improve their policies and procedures in these areas, or providing support by investing in companies that are already making positive changes in ESG-related issues. Some of these activities are values-driven and specific to our ESG strategies. Examples include making a statement at a major bank's annual general meeting (AGM) regarding the financing of for-profit prisons, and encouraging a large, multinational company to use its influence to combat documented human-rights abuses. Other examples cover issues that we believe impact all shareholders with a long-term view. Dana was lead filer on a resolution to separate the board Chair and CEO roles at one of our portfolio companies, a practice we believe engenders stronger oversight on behalf of shareholders. As co-filer, Dana introduced a resolution at the AT&T AGM requesting greater transparency into the company's lobbying activities. We have multiple data providers that cover and report on company policies in these areas, and our investment process integrates this ESG information into the screening and decision-making process within these ESG and socially focused strategies.

Some of these efforts overlap with our other investment strategies; one example is our holding of Dell Technologies Class V, or DVMT. This is a security that was issued – or sold – less than three years ago by Dell Technologies to track their interest in VMware, a growing software company owned by Dell. Dell now wants to retire – or buy – the DVMT stock in exchange for cash and shares of Dell Technologies Class C, their core business.

The key to the transaction is the amount of Class C stock they intend to issue for each share of DVMT. In the five months prior to Dell's initial offer for DVMT stock, Dell's internal valuation of its core business increased by nearly \$30 billion, or +150%. This was convenient. Prior valuations were for purposes of stock grants, where a lower value accrued to more Class C shares for executives and insiders.

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As Dell contemplated using the Class C stock as deal currency, establishing a higher core Dell valuation was preferable. The higher the value of Class C shares, the fewer needed to buyout DVMT shareholders. Our analysis does not support the deal valuation, and we do not believe our clients are being fairly compensated. Less than three years after selling DVMT for a full dollar, Dell has offered to buy DVMT for sixty cents. Meanwhile, DVMT's contractual rights have not changed. The magnitude of the discount is ethically concerning and raises serious corporate governance concerns.

In many similar cases, if we did not feel we could influence the parties involved, we would simply sell the position and move on. In this case, we felt it was important that we take a stand for fair and proper corporate governance. To that end, we wrote a letter to Michael Dell and the independent committee of the Board responsible for protecting the interests of the shareholders outlining our position in detail. The letter can be found [here](#). The transaction is subject to approval by independent shareholders, including Dana, by the end of the year. We are working to connect with other shareholder groups who may share our opinion on the transaction. We feel it is important to take a direct stand for our clients in certain cases, and we may have more to say about this issue in future newsletters or in the news section of our website.

The U.S. markets continue to flirt with all-time highs as other stock markets around the world struggle. Commodity markets are weak, as are precious metals. The dollar is strong, and longer interest rates have taken a turn to the downside. This does not sound like a market that sees inflation or higher rates on the horizon. The good news for our clients is that performance may be supported by a broadening of the number of companies participating in the move up, supported by continuing earnings growth. Smaller companies are the best performers so far this year, and value stocks are beginning to make up lost ground on the growth stock leaders. A market where there are an increasingly large number of contributors on the upside is a healthy market, and we hope that this broadening market is a positive sign for future returns.

Random Thought for August 2018: It is health that is real wealth and not pieces of gold and silver.

- Mahatma Gandhi

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