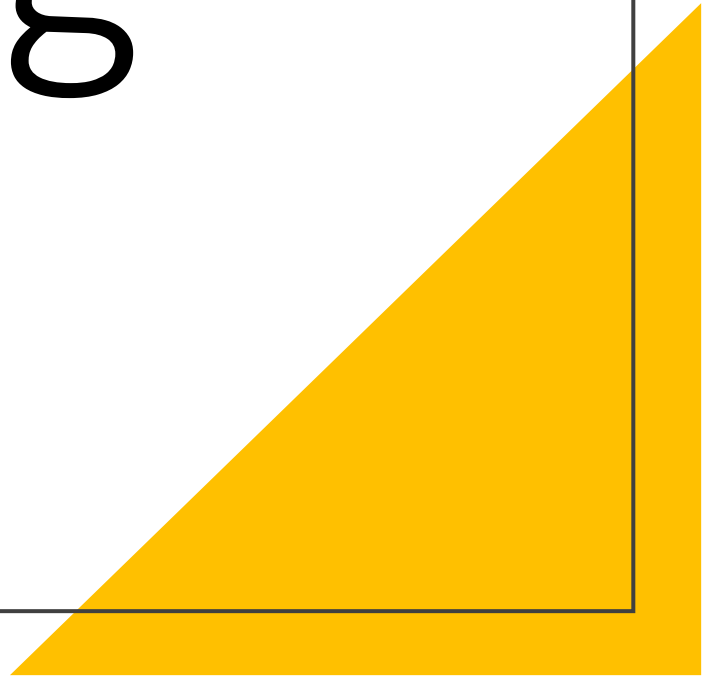


ESG Investing

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Osher Lifelong Learning Institute

Dec. 1, 2021



What is ESG?

Boy, am I glad the other speakers have already answered that one!

“Greenwashing”?

- Definitions of “ESG” are fuzzy. Many stocks and funds claim to be “green” or “ESG,” but are they?
- With Cassius, we can ask whether the fault lies in the (Morning?) stars or in ourselves. Investors can have widely differing views as to what should be in an “ESG” investment.
- What in ESG is important to us? Eliminating stocks that invest in nuclear power, or national defense? Fossil fuels? Is it just climate change that concerns us, or is that a minor part of our equation? How much diversity on a board will satisfy us? With so many differing preferences, companies of course will claim to be ESG-friendly if that has appeal to investors.
- In the end, another issue for due diligence. Do the research to find a stock or fund that meets your principles; don’t rely on advertising or vague claims.

Some Interesting Polling Statistics on ESG

Courtesy of Kiplinger's Personal Finance – Nov. 2021 edition

1

More than 70% of respondents in their survey said ESG status was very or somewhat important to them in choosing investments.

2



40% said they had purchased stocks or bonds in the past based on ESG considerations. (Among millennials, it was almost 2/3rds.)

3


78% said they are very or somewhat likely to add an ESG investment to their portfolios over the next one to two years.

Additional Survey Results

- More than half of the respondents said they would be willing to sacrifice some performance on their investments in order to achieve some ESG goal.
- Only 13% believed that ESG investments would deliver better returns than non-ESG investments.
- About half (49%) said that they preferred mutual funds for their ESG investments.



Do You Actually Sacrifice Performance with ESG Investing?

- Probably depends on what you look at, and for what time periods.
 - At least according to Kiplinger, “the S&P Composite ESG index, a broad measure of ESG-focused stocks covering US companies of all sizes, returned an annualized 18.6% over the past three years; the S&P Composite 1500, its non-ESG cousin, had a 17.2% gain.”
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[cut to Kiplinger slide]

"Kiplinger's ESG 20 at a Glance" table from Kiplinger's Personal Finance, Nov2021.

This may be obtained on line at the Fairfax County Public Library website (<https://www.fairfaxcounty.gov/library/>) and other local libraries.

From the above FCPL link, find the Research Center>Research Databases+ link (to the A-Z Online Resources).

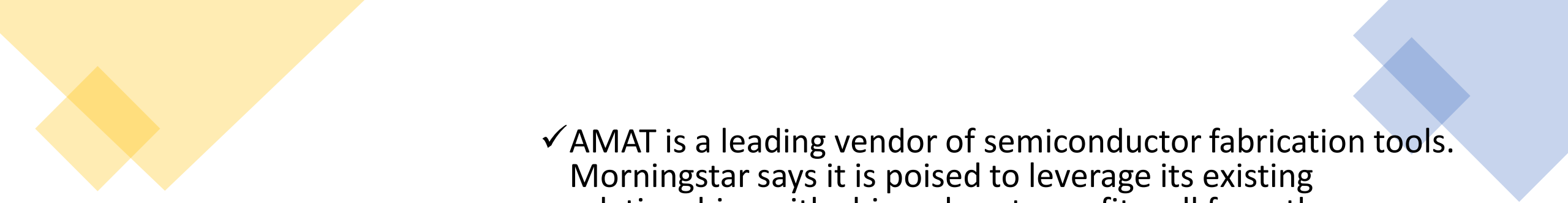
Search databases for "Business Source Ultimate" and push the link.
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Search for "Kiplinger ESG 20."
Find Kiplinger's Personal Finance. Nov2021.
Open the pdf version link and go to file page 4 (magazine page 22).
Read, print or download.

Xylem (XYL)


- ✓ MidCap Core company built around water technology and solutions: instruments for leak detection, water monitoring and treatments.
- ✓ Each day, treated water in the equivalent of 16,000 Olympic-sized swimming pools is lost to leakage and water main breaks.
- ✓ Sells to commercial and municipal entities. International exposure.
- ✓ Morningstar is “excited” on its growth and long-term outlook, but considers its current price at a 32% premium to its fair value.
- ✓ Has a narrow moat and an ESG rating of 16.11(low risk)*

Kellogg (K)

- ✓ Cereals, but growing largely in snacking with Pringles, Nutri-Grain, etc.
- ✓ Morningstar likes K: saying it has a “sound strategic playbook,” wide moat, and competitive advantages in low unit and distribution costs. 40% of sales is outside the U.S.
- ✓ Morningstar lists K as one of its “33 undervalued stocks for the 4th quarter” with its price at a 25% discount to fair value. Yield is 3.73%.
- ✓ ESG considered “moderate” at 27.02.* Also ongoing wages-and-benefits strike and a lawsuit over not-so-strawberry Pop-Tarts.



Applied Materials (AMAT)

- ✓ AMAT is a leading vendor of semiconductor fabrication tools. Morningstar says it is poised to leverage its existing relationships with chipmakers to profit well from the increasing demand for state-of-the-art chips.
 - ✓ It has a wide moat. Primary risk is cyclical nature of the industry.
 - ✓ Morningstar considers it fairly valued. FV is 131; last close 143.
 - ✓ Up 64% YTD but momentum considered likely to continue into 2022.
 - ✓ ESG risk rating is 12.43 (low). ROE 49%; has \$5 billion in free cash flow.
- 




ESG Mutual Funds and ETF's

To identify ones worth considering , I worked with four of the five Kiplinger recommendations, dropping PFUT for lack of recent relevant data, and Fidelity's "Best picks" –

Those "best picks" came from Fidelity.com, research, under "Sustainable Investing," which identified 611 "socially responsible funds." Morningstar data was used in determining which qualified. Fidelity selected 12 as their "best picks."

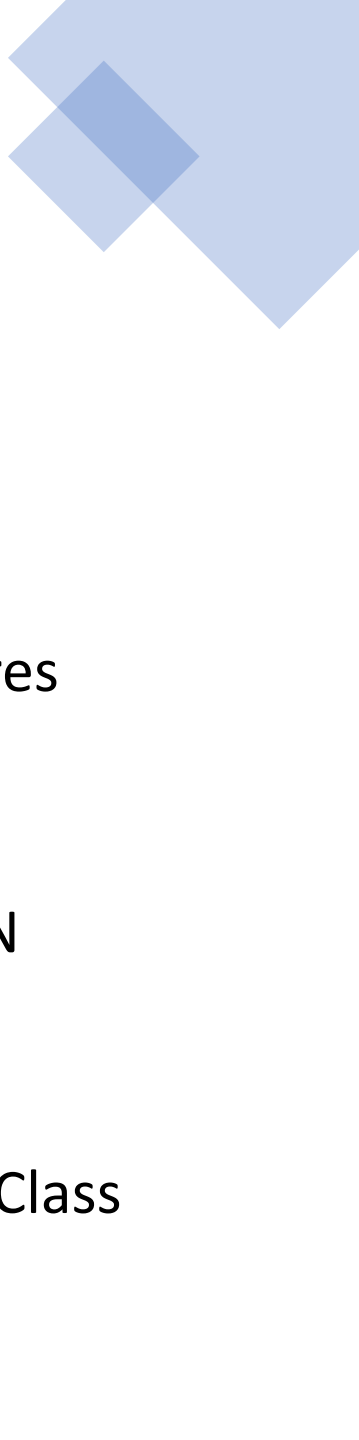
I excluded from those 12 ones which had higher than average expenses and those in the lower half of risk-reward ratios, leaving 5.



I used the same criteria to ask for qualifying ETF's, but none were identified.






The Five Remaining Fidelity “Best Picks”

- AB Global Thematic Fund Class A
ALTFX
 - Calvert Equity Fund Class A
CSIEX
 - Parnassus Core Equity Fund Investor Shares
PRBLX
 - Eventide Multi-Asset Income Fund Class N
ETNMX
 - Pax Sustainable Allocation Fund Investor Class
PAXWX
- 



Add to those five
the remaining four
Kiplinger fund
recommendations:

- Brown Advisory Sustainable Bond
BASBX
 - FlexShares Stoxx Global ESG Select Index
ESGG (ETF)
 - Green Century Balanced
GCBLX
 - Pax Global Environmental Markets
PGRNX
- 


The Issue: Apples and Oranges

- It's hard to compare the nine remaining funds of interest, because each of them has significant differences.
- How do you reasonably compare a bond fund with a global large cap blend stock fund, or a balanced fund focusing on domestic midcaps?
- It all comes down to what you're looking for – perhaps what would now fit best in your portfolio.
- So here's something to look at in each of a variety of categories.



Domestic Large Cap Blend –


Parnassus Core Equity Fund (PRBLX)

- Excludes firms w/ significant exposure to alcohol, tobacco, weapons, fossil fuels, nuclear power and gambling, then applies ESG principles as a further filter
 - Morningstar 5 stars, Gold Exp. Ratio 0.84% (avg.)
 - Keeps pace with index (Russell 1000); 10yr. Return 10K to \$45,947
 - Excellent risk return ratio of 1.27, low risk std. deviation at 16.44
 - 59% in wide moat stocks, 37% in narrow moats.
 - P/E ratio 23.10
 - Sustainability score of 17.82 (low risk)
 - MSFT, GOOG, Danaher, Comcast top 4 investments
- 



Domestic Large Cap Growth Fund

Calvert Equity Fund (CSIEX)

- Builds own models to evaluate ESG risks
 - Morningstar 3 star Bronze Exp. Ratio 0.94%
 - Low risk, avg. return (10K to \$48,503 over ten years)
 - Excellent risk-return ratio of 1.45. Std. Dev. 16.32
 - 52% in wide moat stocks; 39% in narrow
 - P/E 27.98
 - Sustainability score 17.50 (low) -- Considered best 2%
 - Top holdings: ThermoFisher, Alphabet, MSFT, Danaher
- 

Passive ETF/Index Fund/Global Large Cap Blend

FlexShares Global ESG Select Index (ESGG)

- ETF Index fund – tracks STOXX Global ESG Index, comprising stocks “having greater exposure to ESG characteristics.”
- Morningstar 5 Star Gold. Exp. Ratio 0.42%
- In business 5 yrs. In that time, \$10K > \$22,206, beating category.
- Good consistency: in top half of peers all five years, top quarter last 3
- Risk is average; return high. Risk reward ratio is 1.06, very good.
- Global fund: 60% in US stocks, 39% foreign. 48% in wide moats.
- Sustainability index is 21.51 (moderate)
- Top investments: MSFT, Amazon, Apple, Alphabet, Tesla (so – does this provide suitable diversification from most non-ESG investments?)



Global Large Cap Growth Fund –

AB Sustainable Global Thematic Fund (ALTFX)

- Has health, climate, and empowerment themes; then applies fundamental analysis and growth prospects to identified stocks
 - Morningstar 4 Stars Neutral (due to exp. Ratio of 1.05%)
 - Global fund: US 56%, Foreign 42%. Growth oriented, P/E 25.71
 - \$10K returned \$31,848 over ten years
 - Excellent risk return ratio of 1.49; low risk with above avg. return
 - 24% invested in wide moat stocks; 33% in narrow
 - Sustainability score of 20.17 (low moderate) Best 27% of funds
 - Top investments: SVB Financial, MSCI, Waste Mgmt.
- 

Global Large Cap Growth Fund--

Pax Global Environmental Markets (PGRNX)

- Invests at least 80% of assets in companies that focus on environmental markets
- Morningstar 4 Star Bronze (high exp. ratio of 1.20% hurts)
- Morningstar comments: strong investment team, thoughtful stockpicking process and disciplined execution
- Performance easily beats index & category. Over 10 yrs \$10K>\$31,199
- Consistent: only one bottom half result in last 6 yrs. 3 yr. in top 3%.
- Risk above avg. return high. Good risk-return ratio of 1.12
- World stock: US 55%, foreign 43%
- Sustainability score 18.51 (low – best 6%)
- Top investments: Linde, Waste Mgmt., Agilent Technologies

Three Balanced Funds – each a 50-70% Equity Allocation –
and each quite different



Green Century Balanced
(GCBLX)



Eventide Multi-Asset Income
Fund Class N (ETNMX)



Pax Sustainable Allocation
Fund Investor Class (PAXWX)

50-70% Equity Allocation Fund –

Eventide Multi- Asset Income Fund (ETNMX)

- Boutique Firm that combines faith-based and socially responsible investing. Owns many smaller caps that lack individual sustainability ratings.
- Morningstar 4 Star Neutral. Exp. Ratio 1.02%
- Six-year history. \$10K to \$17,935 in that time, beating index.
- Low risk/high return: risk reward ratio an excellent 1.47.
- Only 8% in wide moat stocks; 14% in narrow
- Sustainability index 21.72 (low moderate); top 25% of funds
- Top holdings Agilent Technologies, nVent Electric, Prologis, Trane

50-70% Equity Allocation Fund –

Pax Sustainable Allocation Fund Investor Class PAXWX

- A “fund of funds” approach; seeks to capitalize on the transition to a sustainable economy. “Green bonds” invest in sustainable projects.
- Morningstar 4 Star Neutral. Large Blend. 0.87% exp. Ratio.
- \$10K over ten years to \$25,333, beating index.
- Below avg. risk; above avg. return. Very good risk-return ratio of 1.33.
- 24% in wide moat stocks; 21% in narrow. P/E is 20.38.
- Sustainability index is 19.82 (low risk). Best 5%.
- Invests largely in other Pax institutional funds; largest holding is the 5 star Pax Large Cap fund.

50-70% Equity Allocation Fund --

Green Century Balanced (GCBLX)

- Investments designed to “meet Green Century’s standards for corporate environmental responsibility.”
- Morningstar 4 Star Neutral (rating largely due to high exp. ratio of 1.47%)
- Over 10 years, \$10K > \$28,342, easily beating index and category.
- Average risk, high return: risk return ratio very positive at 1.27.
- Balanced fund: 60% in equity, 32% in fixed income.
- 28% of equity in wide moat stocks; 23 in narrow. P/E of 23.55.
- Sustainability index of 18.07 (very low – top 1%)
- Top equity investments in Apple, MSFT, Alphabet, Mastercard

Bond Fund –

Brown Advisory Sustainable Bond (BASBX)

- Seeks competitive return while giving “special consideration” to ESG criteria
- Morningstar 3 Star Neutral Exp. Ratio 0.51%
- 12-mo. Trailing yield 1.32% Bond duration 6.52
- Morningstar says BASBX has a cost advantage over peers but questions mgmt. (w/out detailing reasons for that reservation)
- Barbell approach on bond quality: 46% AAA, 30% BBB
- Active only for 4 yrs. During that time has outpaced index and category w/ \$10K advancing to \$11,832.
- Sustainability score 19.80 (low)
- About evenly split b/ gov’t bonds, corp. bonds and securitized instruments

Disclaimer:

- I am not an investment advisor and have no professional credentials in finance or investing.
- Please do not make any investment decisions based on these investing snapshots.
- Obtain and review the investment prospectus before investing.

Thank You for
your attention

Or,
It's Time to Wake Up Now

Questions/Comments ?