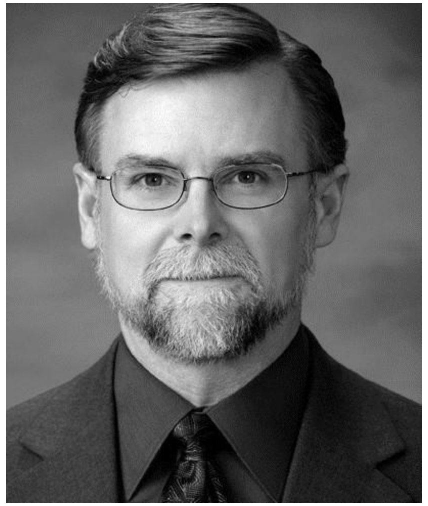
The right way to do ESG . . . and an overall review

Rob Brown, PhD, CFA

Julex Capital Advisory Board Member, Website www.robbrownonline.com



40 Grove Street, Suite 140, Wellesley, MA 02482

Phone 781-489-5398

Email info@julexcapital.com

Web www.julexcapital.com

ESG - definition

- Started in Europe
- Very well developed over there

- Here in U.S.
  - Far behind Europe
  - Very old
  - First called “socially responsible investing”
  - Also touched on “economically targeted investments”
    - Restricted to public pension plans

Can you have both - superior investment results and ESG/SRI

- Common claim
- You can have it all
    - ESG . . . Socially responsible investing
    - Superior risk-adjusted returns

    - Doing good
    - Superior investment returns

- Let's examine this contention

Is it a rewarded Beta?

If so . . . then it makes sense . . . as a passive or index ETF

Consider fixed income

- Checking account
- Money market
- Bank CD
- Ultra short term bond fund
- Short term bond fund
- Intermediate term bond fund
- Long term bond fund
- High yield (junk) bond fund
- Emerging country bonds in local currencies
- Destressed and bankrupt debt

Consider fixed income

- Checking account
- Money market
- Bank CD
- Ultra short term bond fund
- Short term bond fund
- Intermediate term bond fund
- Long term bond fund
- High yield (junk) bond fund
- Emerging country bonds in local currencies
- Destressed and bankrupt debt

Low return, low risk

High return, high risk

Consider the full range of asset categories

- Money market fund
- Treasuries
- Investment grade bonds
- High yield bonds
- Emerging country debt in local currencies
- Physical real estate, bricks & mortar
- Developed country stocks
- Emerging market stocks
- Distressed private debt
- Venture capital

Consider the full range of asset categories

- Money market fund
- Treasuries
- Investment grade bonds
- High yield bonds
- Emerging country debt in local currencies
- Physical real estate, bricks & mortar
- Developed country stocks
- Emerging market stocks
- Distressed private debt
- Venture capital

Low return, low risk

High return, high risk

Lesson - the takeaway

JULEX CAPITAL

- You’re rewarded for taking risk
- You’re penalized for seeking safety

- The marketplace is incredibly efficient

- It rewards you for taking “non-diversifiable” risk . . . . risk that can’t be diversified away

- This is why you get the tradeoffs just described . . . 2 prior slides
- This is called “Beta”

Apply this lesson/takeaway to ESG or SRI

- If companies that strongly comply with ESG criteria . . . and
  - As a result, they're inherently and fundamentally more likely to fail or otherwise get into trouble
  - This additional risk . . . can't be diversified away
- Then . . . the market will reward such companies with a HIGHER rate of return
- In such a case . . . ESG becomes a rewarded factor risk . . . a Beta

What do you think

- QUESTION - Are companies that comply with ESG criteria inherently and fundamentally more likely to fail . . . or otherwise get into trouble?

- If YES . . . . they will deliver a higher return

- If instead they have a lower likelihood of failure or trouble . . . . then they must deliver a lower return

Is ESG a Beta . . . . is it a non-diversifiable source of risk

- ESG . . . . is really easy and incredibly transparent
- It's simple and remarkably straightforward
  - Is following ESG a source of danger and risk
  - Is that additional risk non-diversifiable
  - If so . . . . then the markets must reward (with higher returns) those companies that pursue ESG

- My perspective on this question
  - Such a suggestion . . . this is the biggest crock
  - It is remarkably embarrassing to suggest such a thing

So how do we explain the industry's response to ESG

- One possible explanation
- ESG is not a Beta
- It earns absolutely no inherent reward or penalty . . . the market couldn't care less . . . inherently or fundamentally

- BUT . . . it is a temporary source of alpha . . . and you really really need to appreciate that word "temporary"

Is ESG a possible useful tool for seeking Alpha

Recall . . . . Alpha is only available when the market has mispriced a security

What's Alpha ?

- Alpha . . . . let's ground ourselves with a definition

- The market has screwed up
- The market has mispriced one security relative to another security

- Alpha is the extra performance resulting from
  - Correctly identifying this relative mispricing between securities
  - And . . . successfully harvesting it . . . net of all expenses

- The simple act of harvesting Alpha (a relative mispricing) . . . serves to eliminate the opportunity . . . . closing the relative mispricing . . . eliminating the opportunity

What does Alpha have to do with ESG

- Some have suggested that
  - ESG meaningfully affects the ability of a company to succeed or fail . . . it makes a big difference
  - The market is not adequately taking this ESG affect into account
  - Different securities are therefore temporarily mispriced . . . one relative to another, because security analysts and portfolio managers have not yet adequately taken ESG into account

- If all three of these are true, then
  - Use of ESG analysis may be a temporary method for seeking superior risk-adjusted returns
  - One would only approach ESG using active portfolios . . . and never passive or index

Rob's view on ESG as an Alpha source

JULEX CAPITAL

- I can't say "no"
- Yes . . . . I'm a little skeptical . . . . but I can't say "no"

- If true . . . . then one had better be intensely//incredibly active

- Never never passive or index . . . . . which would prevent the slightest hope of success

- My suspicion . . . and where I come from . . . if you want more of one, then you'll have less of the other

Our industry's approach to ESG

The good, the bad, and the ugly

Wall Street Journal article on the truth about ESG

JULEX CAPITAL

OPINION | INSIDE VIEW

The Many Reasons ESG Is a Loser

By Andy Kessler Follow
July 10, 2022 11:57 am ET

You'll pay far higher expenses for a fund with similar stocks but worse performance.

A few years ago, a guy with a famous last name who ran a socially responsible investment fund asked me to lunch. I was hesitant because I figured he was planning to yell at me for a column I had recently written: "Stocks Weren't Made for Social Climbing." I wrote, "Profits are the best measure of a business's value to consumers—and to society." Instead, he was quite pleasant, though while I ate, he complained that most other environmental, social and governance funds weren't all that socially responsible compared with his—"not ESG enough." I asked him what was in his portfolio, expecting Tesla or some oat-milk company. He answered, " General Motors . " OK then.

These days ESG is big business, with $2.77 trillion in "global sustainable fund assets." The average expense ratio is 0.41%. And sure enough, apparently some funds aren't ESG enough. Police in May raided the European offices of Deutsche Bank 's DWS unit in an investigation of "greenwashing"—saying its investments were more sustainable than they were. The authorities claim, "We've found evidence that could support allegations of prospectus fraud." In June the Securities and Exchange Commission announced an investigation into Goldman Sachs for claiming some of its funds were sustainable and ESG when they really weren't. This is a fight over branding. What has the investment world

Wall Street Journal 2nd article on the truth about ESG

JULEX CAPITAL

OPINION | LETTERS

The Story Behind the Rise of ESG Investing

July 14, 2022 11:14 am ET

The industry needed a way to profitably reprise the old fund-management business.

I agree with Andy Kessler that environmental, social and governance investing (ESG) is frequently a branding exercise designed to fatten the profits of investment managers and otherwise underperforming companies ("The Many Reasons ESG is a Loser," Inside View, July 11). But I don't think ESG is merely an example of successful marketing. It has grown so quickly in part because it also helps fill a hole left by the recent evolution of the financial markets over the past 30 years. The key elements of that evolution are:

Practical ESG issues

- Greenwashing
- Quality and relevance of the data . . . stocks versus bonds versus other
- ESG . . . . only exists within the context of a specific set of very personal values (person specific)
- Story versus substance
- The ultimate craven despicable story-telling
- Classically . . . crap product
- Genuine well-aimed efforts

I’m so seriously pissed off

JULEX CAPITAL

- Hypothetical story

- Large and growing roster of clients are demanding ESG . . . reinforced by political dynamics and societal trends

- Sales and reputational opportunity is identified . . . by the investment manager

- Build a new set of ETFs
    - Claiming ESG
    - Promote the proposition that ESG is an inherently rewarded non-diversifiable risk (a Beta)
    - Increase the expense ratio of these new ETFs by 500% to 600% to 700%
    - Stick these new ultra-high-fee ETFs inside all of their model portfolios that they sell/deliver to advisors and financial planners
    - And . . these new “ESG” ETFs aren’t really any different from their non-ESG ETFs

- If such an organization exists . . . there’s only one word to describe them . . . “Dirty”

Julex offers a marvelous ESG offering

I use it with some of my clients

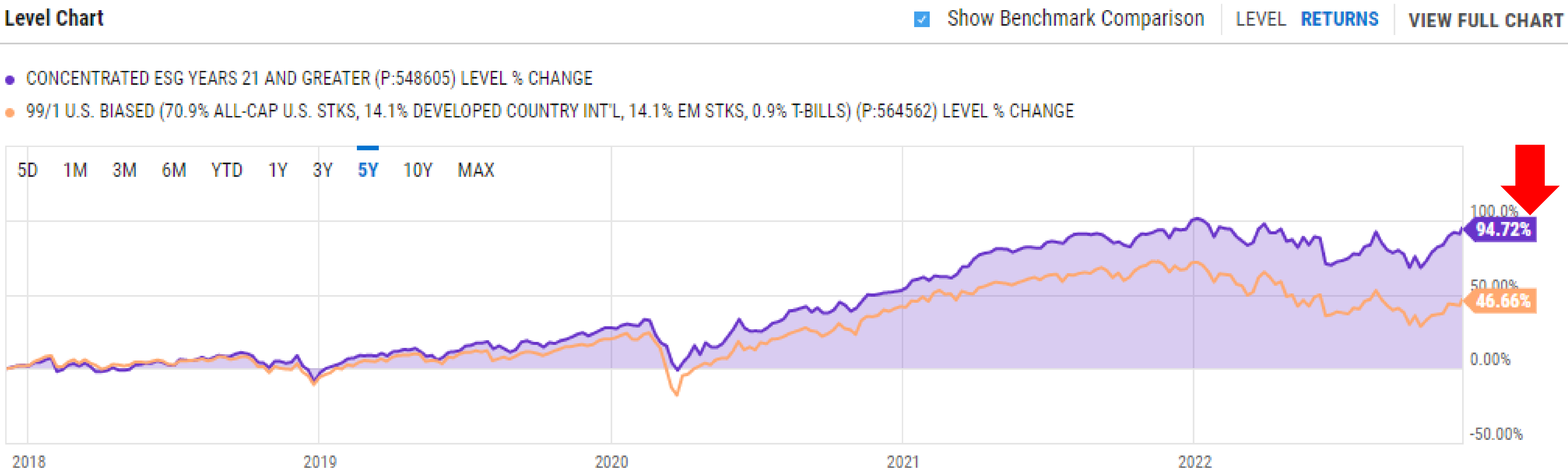
Julex offers a marvelous ESG offering

I use it with some of my clients

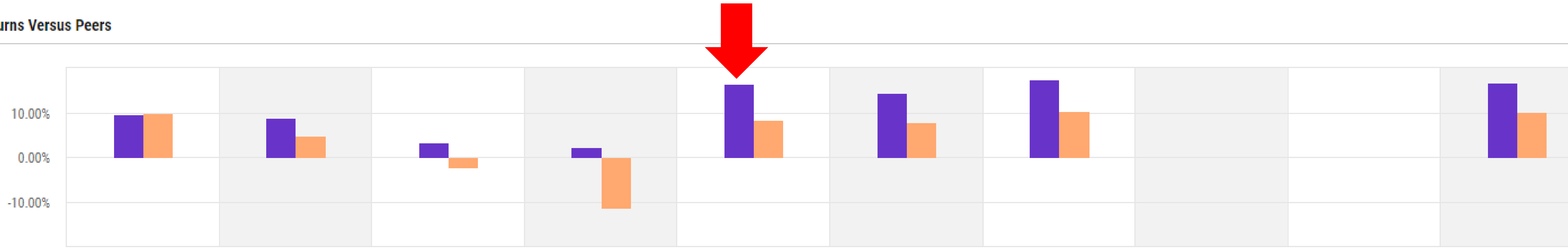
This is a concentrated portfolio

The version I use is

- **25 stocks**
- **Equal-weighted**


Level Chart
Show Benchmark Comparison
LEVEL
RETURNS
VIEW FULL CHART
CONCENTRATED ESG YEARS 21 AND GREATER (P:548605) LEVEL % CHANGE
99/1 U.S. BIASED (70.9% ALL-CAP U.S. STKS, 14.1% DEVELOPED COUNTRY INT'L, 14.1% EM STKS, 0.9% T-BILLS) (P:564562) LEVEL % CHANGE
5D
1M
3M
6M
YTD
1Y
3Y
5Y
10Y
MAX
100.0%
94.72%
50.00%
46.66%
0.00%
-50.00%
2018
2019
2020
2021
2022

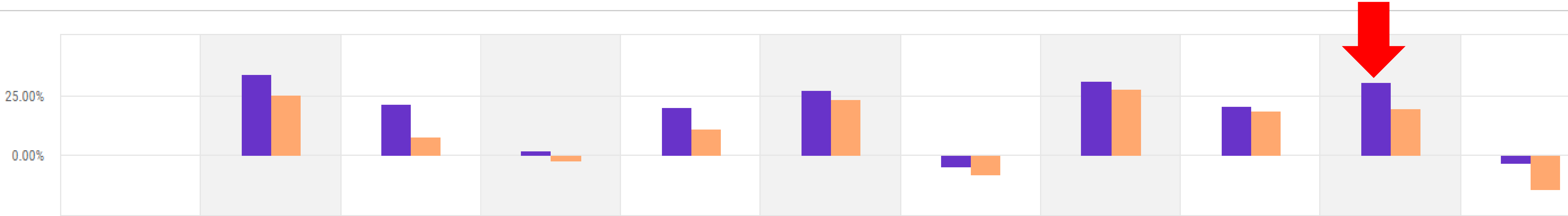
Periodic Total Returns Versus Peers



Name	1M	3M	6M	1Y	3Y	5Y	10Y	15Y	20Y	AT
Concentrated ESG Years 21 and Greater	9.74%	8.90%	3.33%	2.26%	16.50%	14.38%	17.39%	--	--	16.75%
99/1 U.S. Biased (70.9% All-Cap U.S. stks, 14.1% Developed Country Int'l, 14.1% EM stks, 0.9% T-Bills)	9.84%	4.76%	-2.29%	-11.44%	8.32%	7.94%	10.35%	--	--	10.06%

As of December 02, 2022. Returns for periods of 1 year and above are annualized.

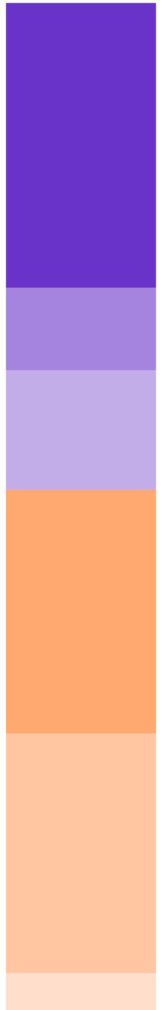
Annual Total Returns Versus Peers



Name	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	YTD
• Concentrated ESG Years 21 and Greater	--	33.64%	21.63%	2.26%	20.02%	27.29%	-4.42%	31.16%	20.72%	30.32%	-2.98%
• 99/1 U.S. Biased (70.9% All-Cap U.S. stks, 14.1% Developed Country Int'l, 14.1% EM stks, 0.9% T-Bills)	--	25.47%	7.91%	-2.08%	11.27%	23.18%	-7.80%	27.86%	18.53%	19.78%	-14.09%

As of December 02, 2022.

Stock Style Exposure (?)



Large Cap Value	28.25%
Large Cap Blend	8.00%
Large Cap Growth	11.99%
Mid Cap Value	24.15%
Mid Cap Blend	23.56%
Mid Cap Growth	4.05%
Small Cap Value	0.00%
Small Cap Blend	0.00%
Small Cap Growth	0.00%

As of December 04, 2022

Stock Style Exposure

Data as of: Dec. 4, 2022

	Co...ater	Bmark
Lg Cap Value	28.25%	17.35%
Lg Cap Blend	8.00%	31.86%
Lg Cap Growth	11.99%	24.55%

	Co...ater	Bmark
Mid Cap Value	24.15%	5.43%
Mid Cap Blend	23.56%	8.96%
Mid Cap Growth	4.05%	4.63%

	Co...ater	Bmark
Sm Cap Value	0.00%	2.35%
Sm Cap Blend	0.00%	3.24%
Sm Cap Growth	0.00%	1.61%

1D
5D
1M
3M
6M
YTD
1Y
3Y
5Y
10Y
MAX
DATE RANGE
12/03/2021
MM/DD/YYYY
Concentrated ESG Years 21 and Greater (P:548605) Level % Change
Dec 2 '22
2.29%
99/1 U.S. Biased (70.9% All-Cap U.S. stks, 14.1% Developed Country Int'l, 14.1% EM stks, 0.9% T-Bills) (P:564562) Level % Change
Dec 2 '22
-10.46%
12.00%
2.29%
0.00%
-10.46%
-12.00%
-24.00%
JAN '22
APR '22
JUL '22
OCT '22

Risk Info

Data as of Nov. 30, 2022

		3 Yr.	5 Yr.	10 Yr.
Alpha	**Concentrated ESG Years 2..ater**	9.054	6.785	7.545
	Benchmark	-2.317	-2.615	-2.437
Beta	**Concentrated ESG Years 2..ater**	0.9064	0.9658	0.9505
	Benchmark	0.9451	0.947	0.9557
Standard Deviation	**Concentrated ESG Years 2..ater**	20.78%	18.47%	15.05%
	Benchmark	22.16%	18.98%	15.37%
Historical Sharpe	**Concentrated ESG Years 2..ater**	0.8597	0.8188	1.193
	Benchmark	0.4321	0.4414	0.699

Risk Info

Data as of Nov. 30, 2022

		3 Yr.	5 Yr.	10 Yr.
Alpha	Concentrated ESG Years 2..ater	9.054	6.785	7.545
	Benchmark	-2.317	-2.615	-2.437
Beta	Concentrated ESG Years 2..ater	0.9064	0.9658	0.9505
	Benchmark	0.9451	0.947	0.9557
Standard Deviation	Concentrated ESG Years 2..ater	20.78%	18.47%	15.05%
	Benchmark	22.16%	18.98%	15.37%
Historical Sharpe	Concentrated ESG Years 2..ater	0.8597	0.8188	1.193
	Benchmark	0.4321	0.4414	0.699

Risk Info

Data as of Nov. 30, 2022

		3 Yr.	5 Yr.	10 Yr.
Alpha	**Concentrated ESG Years 2..ater**	9.054	6.785	7.545
	Benchmark	-2.317	-2.615	-2.437
Beta	**Concentrated ESG Years 2..ater**	0.9064	0.9658	0.9505
	Benchmark	0.9451	0.947	0.9557
Standard Deviation	**Concentrated ESG Years 2..ater**	20.78%	18.47%	15.05%
	Benchmark	22.16%	18.98%	15.37%
Historical Sharpe	**Concentrated ESG Years 2..ater**	0.8597	0.8188	1.193
	Benchmark	0.4321	0.4414	0.699

Risk Info

Data as of Nov. 30, 2022

		3 Yr.	5 Yr.	10 Yr.
Alpha	Concentrated ESG Years 2..ater	9.054	6.785	7.545
	Benchmark	-2.317	-2.615	-2.437
Beta	Concentrated ESG Years 2..ater	0.9064	0.9658	0.9505
	Benchmark	0.9451	0.947	0.9557
Standard Deviation	Concentrated ESG Years 2..ater	20.78%	18.47%	15.05%
	Benchmark	22.16%	18.98%	15.37%
Historical Sharpe	Concentrated ESG Years 2..ater	0.8597	0.8188	1.193
	Benchmark	0.4321	0.4414	0.699

JULEX CAPITAL

Disclosure

Portfolio Rebalance: Each portfolio listed on this report contains a rebalance frequency. This can be selected when you create the portfolio on YCharts. The Portfolios are rebalanced to the proper target weights at each target rebalance point. For monthly rebalancing, the portfolio will rebalance to the target weight at the end of each calendar month. For quarterly rebalancing, the portfolio will rebalance to the target weight at the end of each calendar quarter (March 31st,June 30th, September 30th, December 31st). For annual rebalancing, the portfolio will rebalance to the target weight at the end of each calendar year.Lastly, if the portfolio never rebalances, the target weights are implemented at the portfolio inception date, but will not change after that.

Portfolio Weights : All stated portfolio weights are based on allocation choices input by the creator of this report. These weights represent the values used at rebalance periods and not necessarily the implied weights at the time this report was generated. All weightings ignore the concept of whole shares and instead uses the exact percentage chosen when setting up the portfolio.

Rebalancing: Rebalancing is conducted on either a quarterly or monthly basis,as selected by the creator of this report. Weights may drift away from the target allocations between rebalance periods

Returns : The returns shown in this Hypothetical Research Report do not represent what a client would earn if they were to invest in any portfolio offered by Integrated Financial Partners. Any suggestion to the contrary is false and misleading. All returns shown in this document are purely hypothetical and must not be considered performance reporting. Many factors and influences must be accurately taken into account before a set of returns could be considered reflective of an actual portfolio offered by Integrated Financial Partners. These factors and influences include, but are not limited to: bid/ask spreads, trade impact, fees, expenses, trading delay, time-of-day, availability, client-restrictions, client-limitations, market movement, volume impact, commissions, custodial restrictions and/or limitations, and taxes. None of these factors or influences have been included. Therefore, the returns shown in this Hypothetical Research Report do not reflect any portfolio offered by Integrated Financial Partners. The hypothetical returns displayed are based on weighted calculations of the underlying holdings' returns and other selections by the creator of this report. Returns assume all dividends and distributions are reinvested on the corresponding ex-date. Returns are not audited and should not be considered performance reporting, as they are hypothetical in nature.

What I'm doing with my own clients . . . who are ESG involved

JULEX CAPITAL

- I have a small set of clients
- An even smaller slice expects ESG sensitivity
- I'm unusually forthright with them about
  - The industry's misleading story-telling
  - How difficult it is to measure
  - It's even more difficult to execute
  - They and I need to engage on . . . what's important to them . . . how do they define ESG
  - That I will present honest viable opportunities . . . as they arise, but they are few and far between

Sensible, practical advisor approaches, responses

- A label
  - Use one or more of the ESG models being offered by segments of the industry
  - Don’t expect it to work . . . . other than the label, and being ultra-easy to use

- Custom build
  - This is seriously time consuming
  - It tailors the solution (which you have to build) to how your client defines (and evolves) their own personal definition of ESG

- Honest forthright industry products
  - Julex ESG
  - Others . . . Real estate, private debt, electrification . . . all limited partnership structures
  - Use the Custom Series

Sensible, practical advisor approaches, responses

- A label
  - Use one or more of the ESG models being offered by segments of the industry
  - Don’t expect it to work . . . . other than the label, and being ultra-easy to use
- Custom build
  - This is seriously time consuming
  - It tailors the solution (which you have to build) to how your client defines (and evolves) their own personal definition of ESG
- Honest forthright industry products
  - Julex ESG
  - Others . . . who follow a similar approach to Julex

Custom build for ESG - if you're honest . . . this is the only way forward

- Custom

- What I'm doing
  - Engaging with the client
  - Build a stock portfolio from scratch . . . . one stock at a time . . . based on their criteria
  - But I set and maintain their expectations as to what is actually doable
  - I'm always hunting for potentially viable solutions
  - Interesting possibilities that I've run across have appeared in
    - Bricks & mortar physical real estate
    - Private credit . . . . that is ultra sensitive to ESG concerns
    - Unique alternatives that address the client's ESG concerns
      - Physical reinsurance on wind farms . . . et al


un film di
SERGIO LEONE
IL BUONO
IL BRUTTO
IL CATTIVO
SERGIO LEONE
CLINT EASTWOOD • ELI WALLACH • LEE VAN CLEEF
IL BUONO IL BRUTTO IL CATTIVO
ALDO GIUFFRÈ

JULEX CAPITAL

Attractive, ESG solutions do exist. But they're rare. It's critical to draw a distinction between "doing good" and "outperformance"

It's not easy. You've got to ask and adequately answer *"Why does it exist?"* and *"Why does it work?"* Very few can afford the required calorie burn

Attractive, ESG solutions do exist. But they're rare. It's critical to draw a distinction between "doing good" and "outperformance"

CAPITAL

Attractive, ESG solutions do exist. But they're rare. It's critical to draw a distinction between "doing good" and "outperformance"

It's not easy. You've got to ask and adequately answer *"Why does it exist?"* and *"Why does it work?"* Very few can afford the required calorie burn

A record level of bad product is appearing. This will undermine ESG's reputation . . . and its appropriate application

For more information contact

Jeff Megar, CFA
Email jeff.megar@julexcapital.com
Office 781-772-1378

Liam Flaherty
Email liam.flaherty@julexcapital.com
Office 781-489-5398

TAA when you've only got a couple of years to invest

Friday

December 16th

11:00 a.m. EASTERN

Important Disclosures

All data and statistics were provided by Global Financial Data, Inc. and NDR, Inc. (unless otherwise indicated in the exhibit)

This information in this presentation is for the purpose of information exchange. This is not a solicitation or offer to buy or sell any security. You must do your own due diligence and consult a professional investment advisor before making any investment decisions. The use of a proprietary technique, model or algorithm does not guarantee any specific or profitable results. Past performance is not indicative of future returns. The performance data presented are gross returns, unless otherwise noted.

The risk of loss in trading securities can be substantial. You should therefore carefully consider whether such trading is suitable for you in light of your financial condition. All information posted is believed to come from reliable sources. We do not warrant the accuracy or completeness of information made available and therefore will not be liable for any losses incurred.

Some part of the investment performance shown is HYPOTHETICAL. It is based on the back tests of historical data. Hypothetical performance results have many inherent limitations, some of which are described below. No representation is being made that any account will or is likely to achieve profits or losses similar to those shown. In fact, there are frequently sharp differences between hypothetical performance results and the actual results subsequently achieved by any particular trading program.

One of the limitations of hypothetical performance results is that they are generally prepared with the benefit of hindsight. In addition, hypothetical trading does not involve financial risk, and no hypothetical trading record can completely account for the impact of financial risk in actual trading. For example, the ability to withstand losses or adhere to a particular trading program in spite of trading losses are material points which can also adversely affect actual trading results. There are numerous other factors related to the markets in general or to the implementation of any specific trading program which cannot be fully accounted for in the presentation of hypothetical performance results and all of which can adversely affect actual trading results.

The composition of a benchmark index may not reflect the manner in which a Julex portfolio is constructed in relation to expected or achieved returns, investment holdings, portfolio guidelines, restrictions, sectors, correlations, concentrations, volatility, or tracking error targets, all of which are subject to change over time.

No representation or warranty is made to the reasonableness of the assumptions made or that all assumptions used to construct the performance provided have been stated or fully considered.