1Q23 ESG & Carbon Signals

US Large Caps

Confluence Analytics

Disclaimer

Confluence Analytics

DISCLAIMER: Any assumptions, opinions and estimates constitute our judgment as of the date of this material and are subject to change without notice. Confluence Capital Analytics Inc. ("Confluence") and its affiliates and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively: "Confluence Parties") do not guarantee the accuracy, completeness, adequacy or timeliness of any information, including ratings and rankings and are not responsible for errors and omissions or for the results obtained from the use of such information and Confluence Parties shall have no liability for any errors, omissions, or interruptions therein, regardless of the cause, or for the results obtained from the use of such information. CONFLUENCE PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO ANY WARRANTIES OF MERCHANTABILITY, SUITABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE. In no event shall Confluence Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of the information contained in this document even if advised of the possibility of such damages. Confluence ratings and rankings are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold, or sell any securities or to make any investment decisions. Confluence ratings and rankings should not be relied on when making any investment or other business decision. Confluence's opinions and analyses do not address the suitability of any security. Confluence does not act as a fiduciary or an investment advisor. While Confluence has obtained information from sources believed to be reliable, Confluence does not perform an audit or undertake any duty of due diligence or independent verification of any information it receives. Confluence keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of Confluence may have information that is not available to other Confluence business units. Confluence has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process. Confluence may receive compensation for its ratings and certain analyses. Confluence reserves the right to disseminate its opinions and analyses. At times, Confluence's public ratings and analyses are made available on its website (www.ConfluenceAnalytics.com) and may be distributed through other means, including via Confluence-issued publications and third-party redistributors. This material is not intended as an offer or solicitation for the purchase or sale of any security or other financial instrument. Securities, financial instruments or strategies mentioned herein may not be suitable for all investors. Any opinions expressed herein are given in good faith, are subject to change without notice, and are only correct as of the stated date of their issue. Prices, values, or income from any securities or investments mentioned in this report may fall against the interests of the investor and the investor may get back less than the amount invested. Where an investment is described as being likely to yield income, please note that the amount of income that the investor will receive from such an investment may fluctuate. Where an investment or security is denominated in a different currency to the investor's currency of reference, changes in rates of exchange may have an adverse effect on the value, price or income of or from that investment to the investor. The information contained in this material does not constitute advice on the tax consequences of making any particular investment decision. This material does not take into account your particular investment objectives, financial situations or needs and is neither intended as a recommendation of particular securities, financial instruments or strategies to you nor is it considered to be investment advice. Before acting on any information in this material, you should consider whether it is suitable for your particular circumstances and seek professional advice.

Agenda

- Background on ESG & Carbon Signal Process
- US Large Caps to Watch - Signals In Action
- Review of ESG Signals for 1Q23 – US Large Cap
- Review of ESG & Carbon Factor Performance for US Large Cap
- Spotlight on Carbon Signal 3
- Carbon Signal 3 Model Portfolio

ESG & Carbon Signal Process

Confluence Analytics

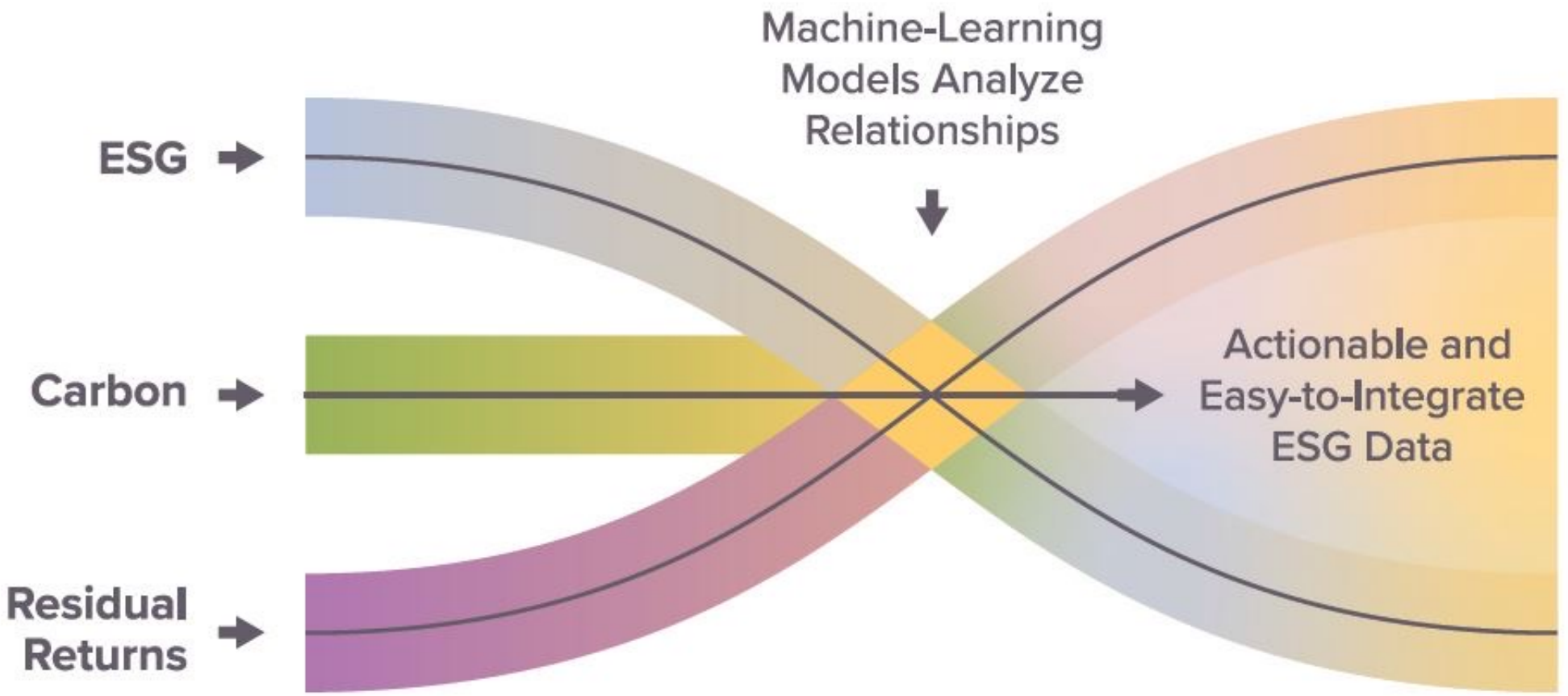
Confluence Analytics

Defining Signals

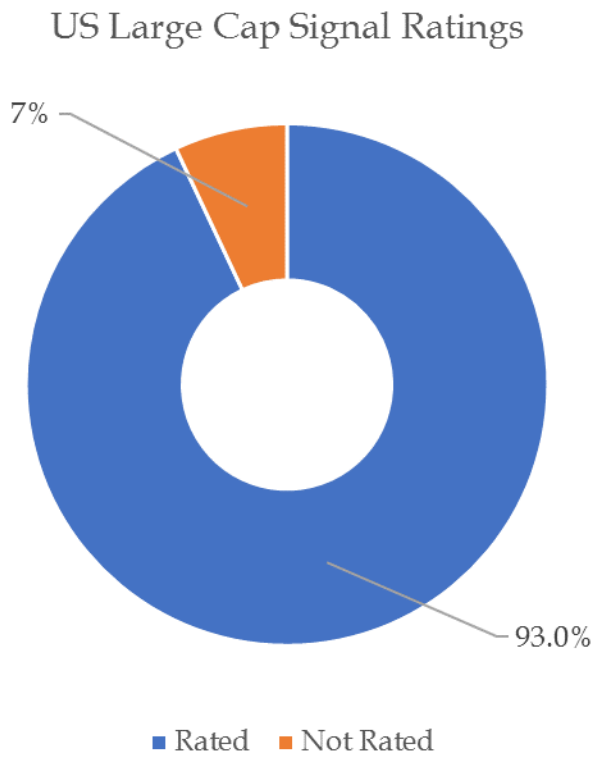
	Description
ESG Rank	Equal-weighted score of the sub categories of E,S,G pillars
ESG Signal 1	Score based on Top 5 ESG KPIs positively correlated with residual returns
ESG Signal 2	Rank based on 12-month return model of residual returns, ESG Ranks and Deltas
Carbon Signal 3	Rank based on 12-month return model of residual returns, ESG ranks, Carbon data and their deltas

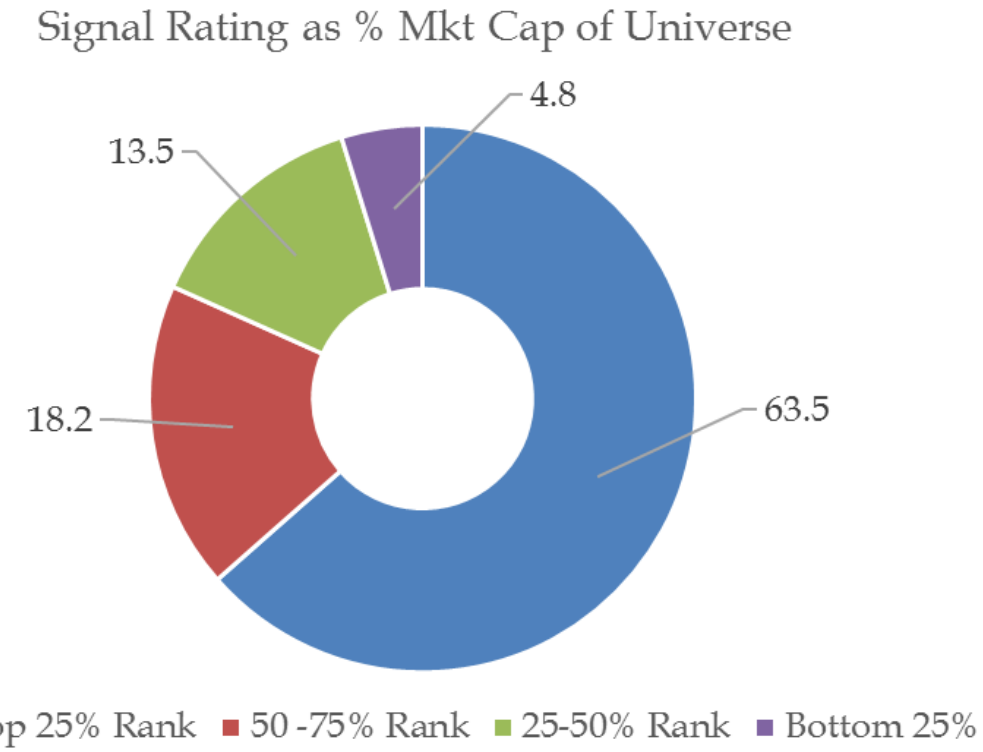
Confluence Analytics

ESG & Carbon Signal Process



Comprehensive Signals

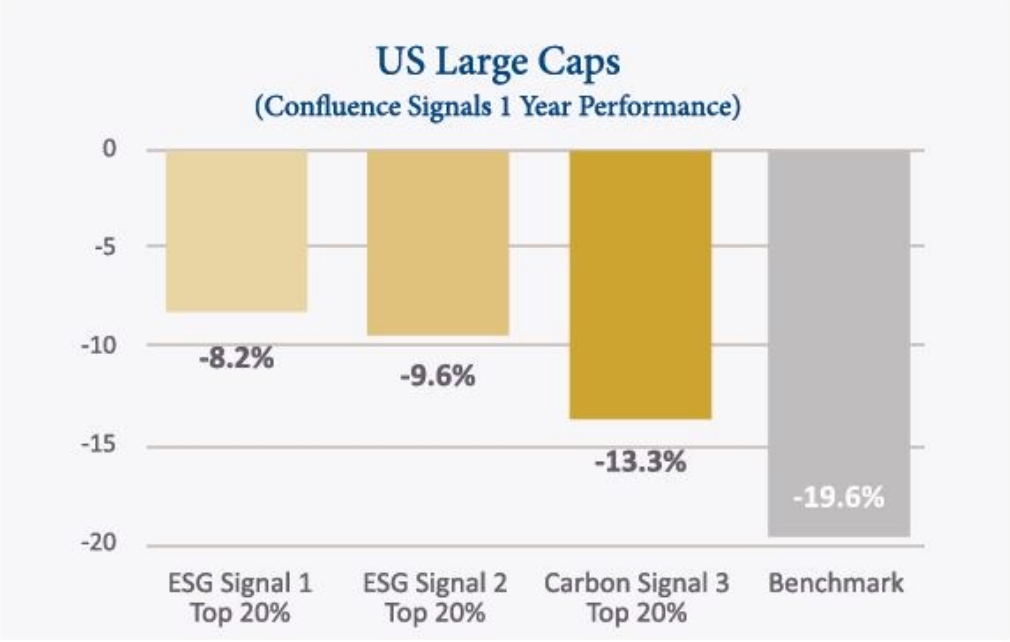




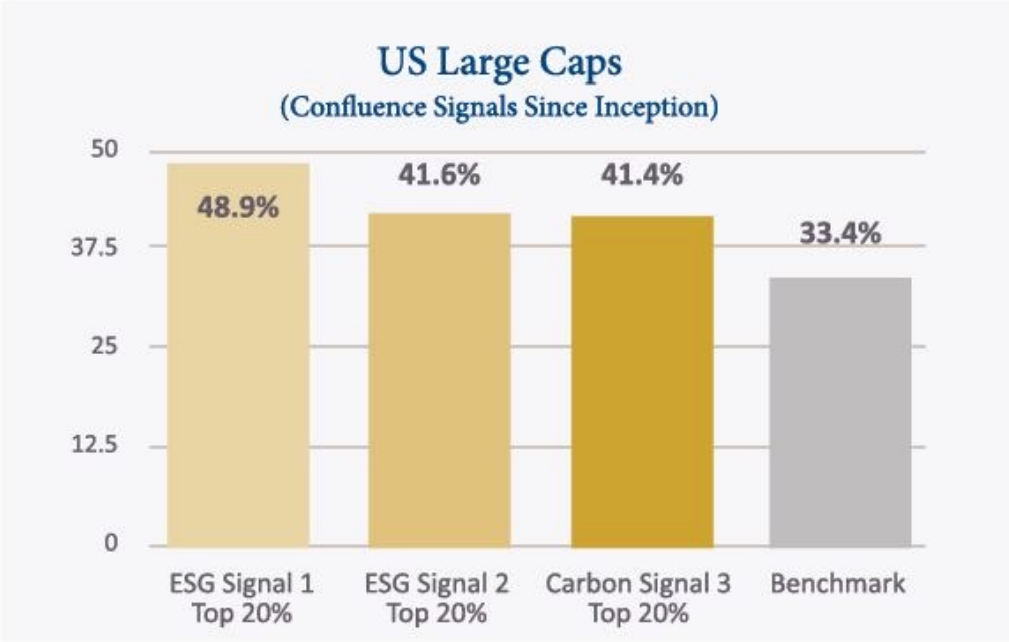
Note: Signals require 12 months of data; IPOs and Spin-offs excluded

Confluence Analytics

Our Signals Lead to Better Outcomes



Equally weighted, updated quarterly. 1 yr performance is 2022.



Equally weighted, updated quarterly. Since Inception starts 7/31/2019.

Eliminate guess work and time spent deciphering which ESG factors will influence future performance for individual stocks.

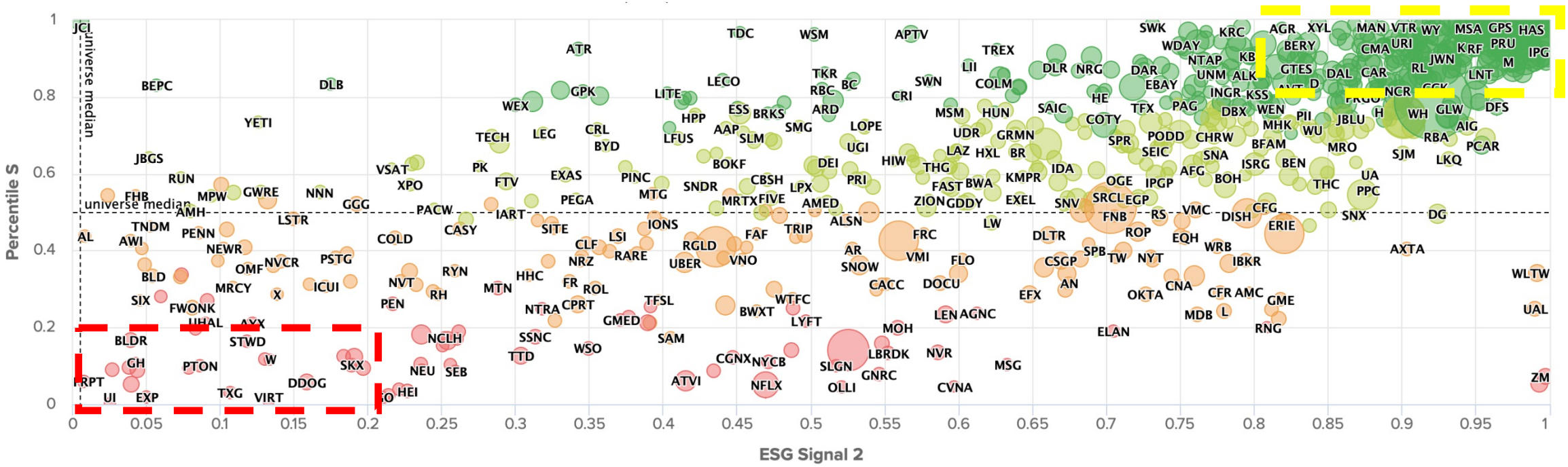
Our signals determine stock performance and risk without regard for narratives.

Signals In Action – US Large Caps

Confluence Analytics

Confluence Analytics

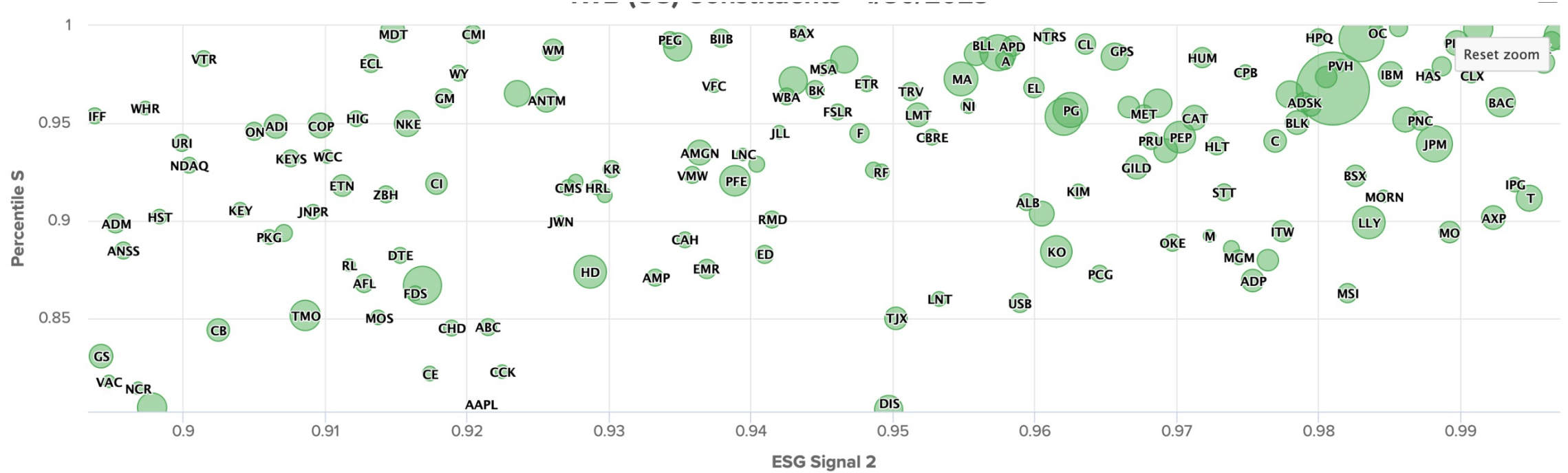
Signals In Action



The matrix above shows two factors that have seen outperformance versus the benchmark since 2019. ESG Signal 2 vs Social Rank.

Fruitful areas to watch in the US Large Cap universe are highlighted in the rectangles above. Attractive longs (yellow), long-term underperformers (red).

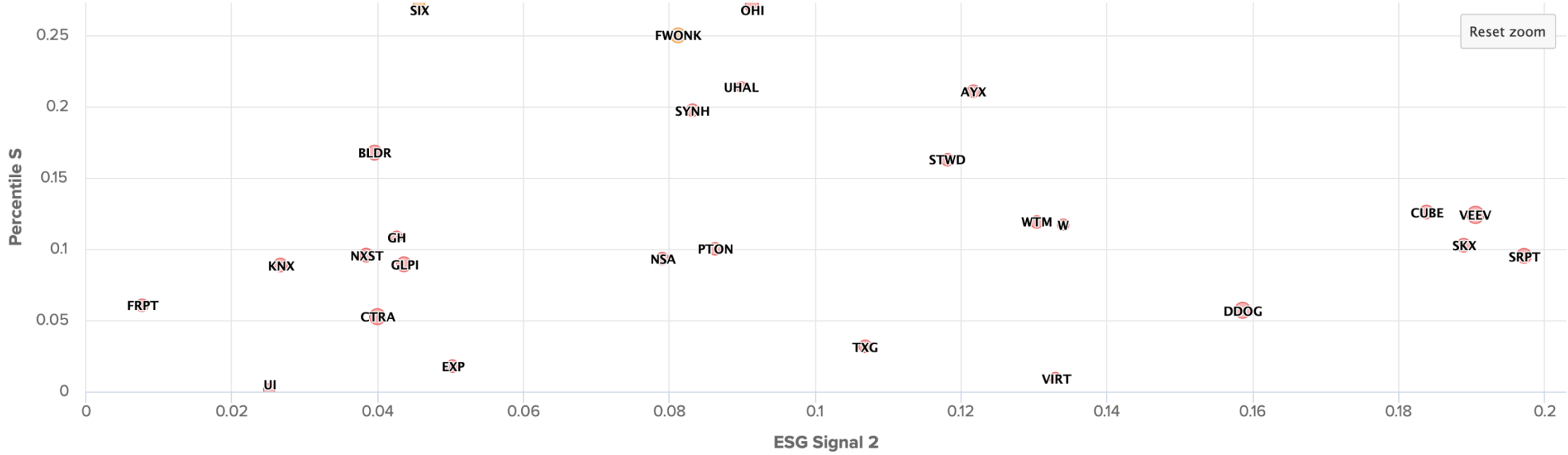
Signals In Action - Longs



Zooming into the yellow rectangle from the previous slide, we see a diverse mix of companies in the top 10% of the Social vs ESG Signal 2 Rank.

An excel sheet of the names is available upon request: inquiry@confluenceanalytics.com

Signals In Action - Shorts



Zooming into the red rectangle from slide 8 highlights smaller companies, as bubble size represents allocation in the US Large Cap universe by market cap.

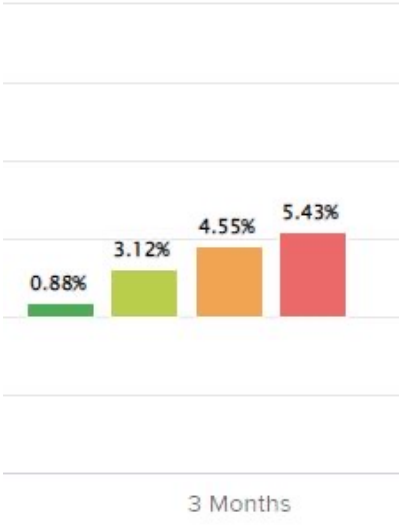
An excel sheet of the names is available upon request: inquiry@confluenceanalytics.com

1Q23 Signal & Factor Review

Confluence Analytics

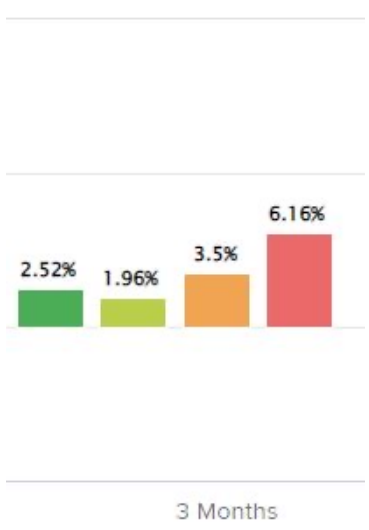
ESG Signal 1Q23 Review

ESG Rank

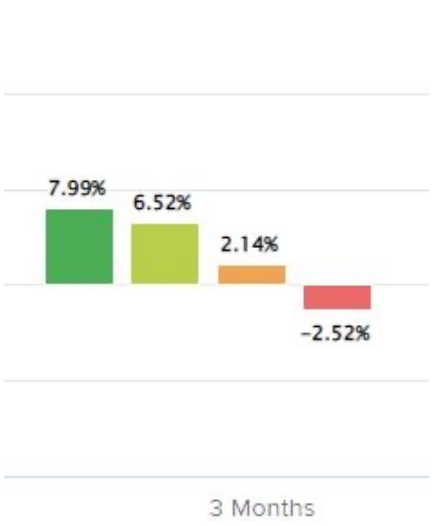


ESG Signal 1

ESG Signal 2



Carbon Signal 3



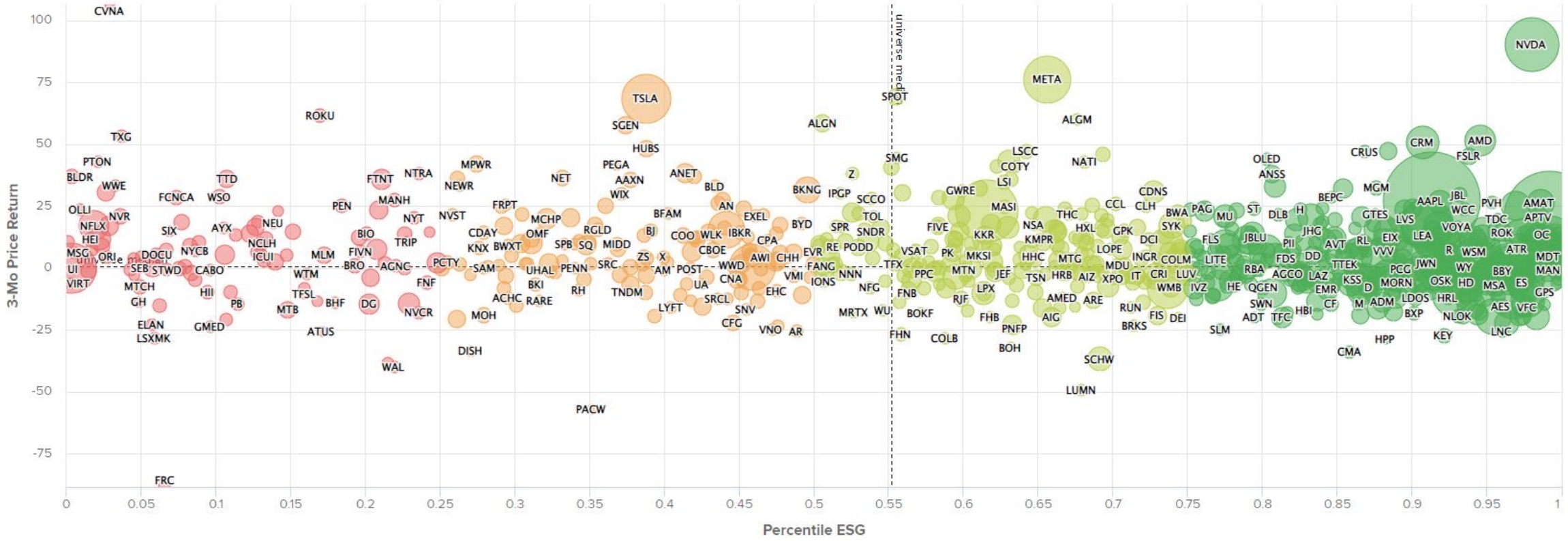
Top 25% (120 assets) 50-75% (118 assets) 25-50% (123 assets) Bottom 25% (121 assets)

A quick review of ESG and Signals results for the 1Q23 reveals a strong 1st quarter for lower rated stocks.

The lone exception to this trend can be seen in our Carbon Signal 3 metric. It is our only signal that combines both ESG & Carbon metrics to forecast 12-month risk.

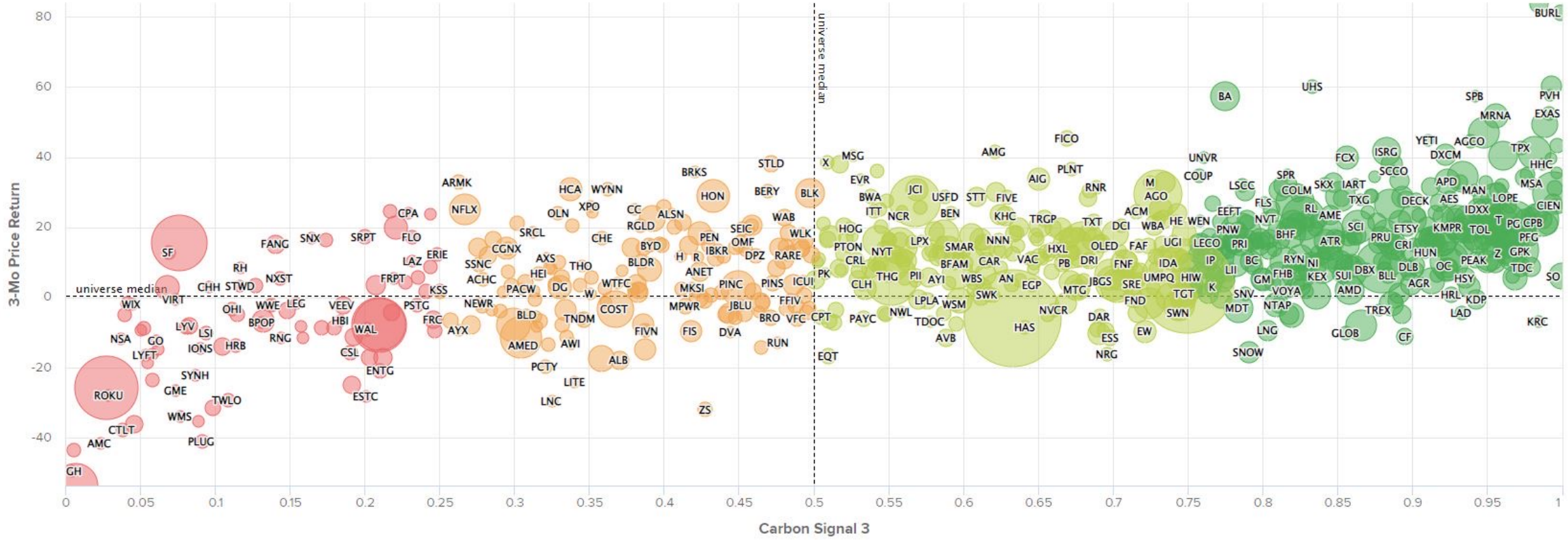
Confluence Analytics

1Q23: ESG Rank vs. Return


3-Mo Price Return
Percentile ESG
universe median
100
75
50
25
0
-25
-50
-75
0
0.05
0.1
0.15
0.2
0.25
0.3
0.35
0.4
0.45
0.5
0.55
0.6
0.65
0.7
0.75
0.8
0.85
0.9
0.95
1
CVNA
ROKU
TXG
PTON
BLDR
WWE
OLLI
NVR
NFLX
HEI
MSG
ORI
UI
VIRT
SIX
FCNCA
WSO
TTD
AYX
NEU
NCLH
ICUI
DOCU
NYCB
SEB
STWD
CABO
MTCH
GH
HII
PB
ELAN
LSXMK
GMED
MLM
WTM
TFSL
MTB
BHF
ATUS
PEN
BIO
FIVN
TRIP
BRO
DG
NVCR
FRC
MANH
NYT
FTNT
NTRA
MPWR
NEWR
NVST
FRPT
PCTY
FNF
AGNC
WAL
NET
CDAY
KNX
BWXT
MCHP
OMF
SPB
SQ
RGLD
MIDD
SAM
UHAL
BKI
ACHC
RARE
PENN
RH
SRC
TNDM
DISH
MOH
PACW
TSLA
SGEN
HUBS
PEGA
AAXN
WIX
ANET
BFAM
BJ
ZS
X
AM
POST
LYFT
UA
SRCL
CFG
VNO
AR
BLD
AN
EXEL
COO
WLK
IBKR
CBOE
CPA
AWI
CHH
WWD
CNA
SNV
EHC
VMI
IONS
NNN
NFG
MRTX
WU
BYD
BKNG
IPGP
SCCO
TOL
SNDR
SPR
RE
PODD
EVR
FANG
TFX
ALGN
SPOT
SMG
Z
META
ALGM
NATI
LSCC
COTY
LSI
GWRE
MASI
FIVE
KKR
NSA
KMPR
HHC
MTG
HXL
THC
GPK
LOPE
MDU
INGR
DCI
CCL
CLH
CDNS
BWA
PAG
SYK
MU
ST
DLB
H
JHG
PII
AVT
RL
EIX
VVV
FLS
JBLU
LITE
COLM
FDS
DD
TTEK
RBA
AGCO
LAZ
KSS
D
MORN
OSK
HD
MSA
ES
GPS
HE
QGEN
EMR
CF
M
ADM
LDOS
HRL
AES
VFC
SWN
ADT
TFC
HBI
BXP
NLOK
LNC
KEY
HPP
CMA
SCHW
LUMN
SLM
BOH
PNFP
FHN
COLB
FHB
BOKF
FNB
PPC
MTN
JEF
LPX
RJF
AIG
AMED
ARE
RUN
BRKS
FIS
DEI
TSN
HRB
AIZ
XPO
IT
CRI
LUV
WMB
IVZ
PK
MKSI
VSAT
TFX
OLED
ANSS
CRUS
CRM
AMD
FSLR
NVDA
BEPC
MGM
AAPL
JBL
WCC
PVH
AMAT
APTV
TDC
ROK
OC
VOYA
LEA
R
WSM
ATR
MDT
MAN
WY
BBY
JWN
PCG
TTEK
KSS
MORN
OSK
HD
MSA
ES
GPS
HRL
LDOS
BXP
NLOK
LNC
KEY
HPP
CMA
AES
VFC
SWN
ADT
TFC
HBI
CF
M
ADM
EMR
QGEN
HE
IVZ
WMB
LUV
CRI
IT
XPO
AIZ
HRB
TSN
JEF
MTN
PPC
FNB
BOKF
RJF
LPX
AIG
AMED
ARE
RUN
BRKS
FIS
DEI
SLM
BOH
PNFP
FHB
FHN
COLB
LUMN
SCHW
CMA
HPP
KEY
LNC
NLOK
BXP
LDOS
HRL

Confluence Analytics

1Q23: Carbon Signal 3 vs. Return



Carbon Signal 3 mixes Carbon, ESG and residual returns to make a forecast of future returns. The ranking system on the X-axis is the result of this process.

Higher ranked stocks generally outperformed their lower ranked counterparts.

Confluence Analytics

US Large Signals & ESG Factors – 1Q23

Rank	Factor	3mo Return	Alpha	# of Companies
1	Bottom 10 Diversity	14.56	7.14	23
2	Bottom 10 S	14.2	6.78	23
3	Bottom 10 Signal 3	12.76	5.34	43
4	Top 10 Scope 3	10.35	2.93	101
5	Bottom 10 ESG	10.26	2.84	33
6	Bottom 10 Signal 2	10.12	2.7	40
7	Bottom 10 E	9.98	2.56	30
8	Bottom 10 Signal 1	9.44	2.02	42
9	Top 10 Carbon Mkt Cap	8.27	0.85	111
10	Russell 10000	7.42		
11	Bottom 10 G	6.47	-0.96	76
12	US Large Cap (EQW)	4.48	-2.94	843
13	Bottom 10 Carbon Mkt Cap	3.91	-3.51	94
14	Top 10 Carbon	3.46	-3.96	114
15	Bottom 10 Carbon	3.45	-3.97	109
16	Bottom 10 Scope 3	3.34	-4.08	85
17	Top 10 E	2.76	-4.66	188
18	Top 10 Signal 1	2.16	-5.26	131
19	Top 10 ESG	1.82	-5.6	200
20	Top 10 Signal 2	1.52	-5.9	165
21	Top 10 Diversity	0.98	-6.44	197
22	Top 10 S	0.94	-6.48	194
23	Top 10 G	0.89	-6.53	159
24	Top 10 Signal 3	-0.35	-7.77	107

Note: Strategies are all equally weighted baskets rebalanced monthly

Here we are looking at the Top/Bottom 10% of the US Large Cap universe by ESG Factor and Signal.

Bottom Rank Factors echo the dash for trash stock activity of the 1st quarter in the US Large Cap Universe.

Confluence Analytics

Signals & ESG Factors – Since Inception

Rank	Factor	3mo Return	Alpha	# of Companies
1	Bottom 10 Carbon Mkt Cap	77.52	34.19	94
2	Bottom 10 Scope 3	75.91	32.58	85
3	Bottom 10 Carbon	65.48	22.15	109
4	Top 10 S	50.31	6.97	194
5	Top 10 Diversity	49.77	6.44	197
6	Top 10 ESG	48.99	5.65	200
7	Top 10 G	48.55	5.21	159
8	Top 10 Carbon	44.21	0.88	114
2	Top 10 Signal 2	43.35	0.02	165
10	Russell 10000	43.33		
11	Top 10 E	43.01	-0.32	188
12	Top 10 Signal 1	40.74	-2.6	131
13	US Large Cap (EQW)	39.92	-3.41	843
14	Top 10 Signal 3	38.27	-5.06	107
15	Bottom 10 Signal 3	36.18	-7.15	43
16	Bottom 10 ESG	31.15	-12.18	33
17	Bottom 10 Diversity	28.88	-14.45	23
18	Top 10 Carbon Mkt Cap	24.01	-19.33	111
19	Bottom 10 G	20.67	-22.66	76
20	Top 10 Scope 3	20.2	-23.13	101
21	Bottom 10 E	16.88	-26.45	30
22	Bottom 10 S	16.03	-27.3	23
23	Bottom 10 Signal 2	4.32	-39.02	40
24	Bottom 10 Signal 1	4.03	-39.3	42

Note: Strategies are all equally weighted baskets rebalanced monthly

Our signals start in mid-2019 and the ESG data goes back a full 5 years before that to build up the signal data.

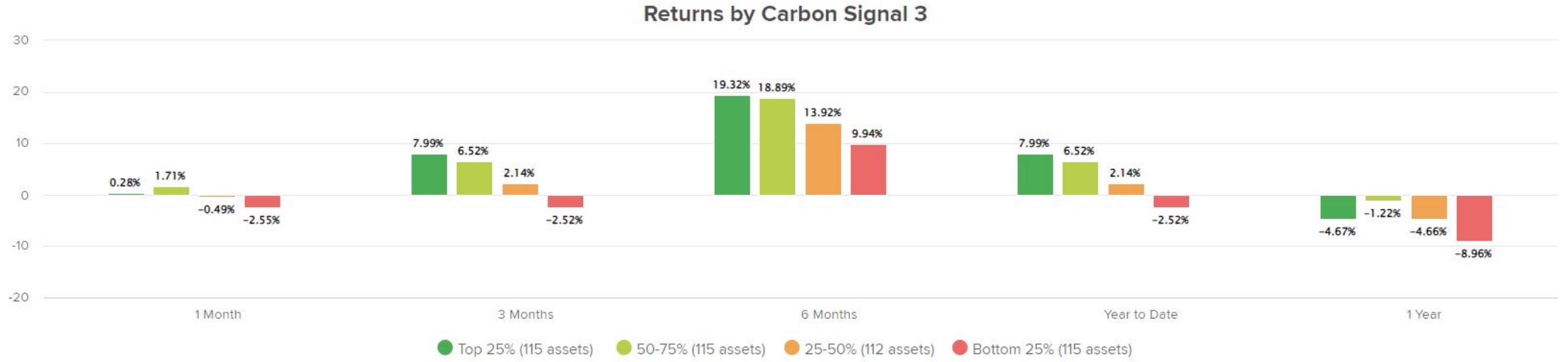
Factors since inception highlight the major rise in Energy prices since 2019, but also several ESG signals that on average have outperformed the benchmark and universe.

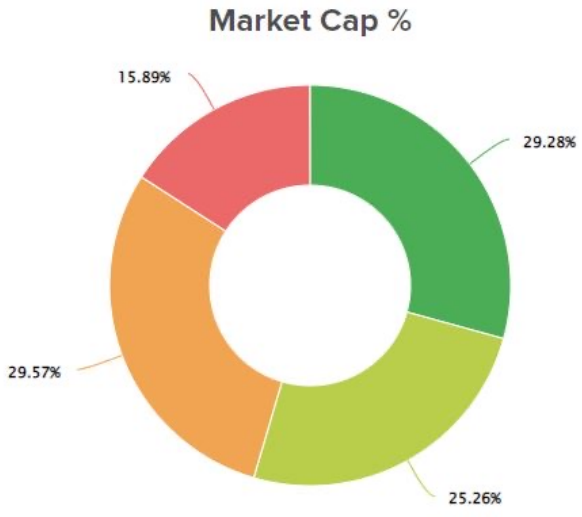
We highlight in bold the factors that we used to construct the matrix on slide 8.

Carbon Signal 3 Spotlight Review

Confluence Analytics

Carbon Signal 3 Returns Over Time



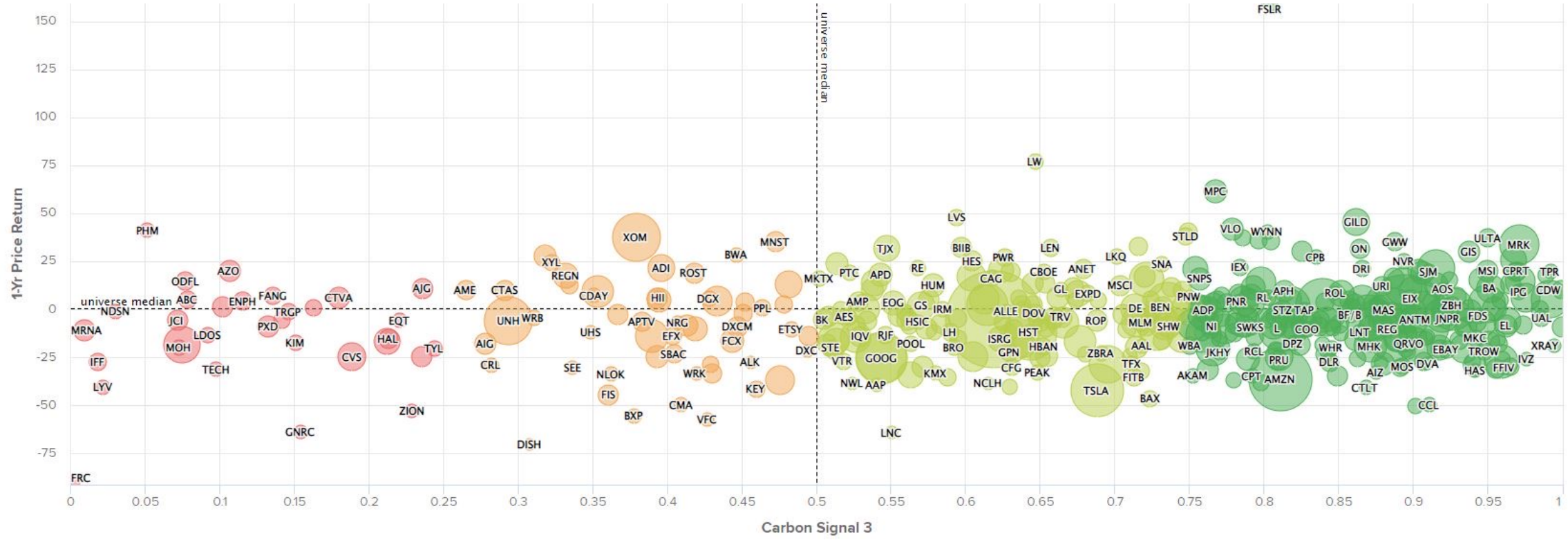


Carbon Signal 3 results more uniform year to date, with a positive spread between the top and bottom ranked stocks over 1-yr.

Positive spread between top quartile and bottom quartile for all of the time periods shown

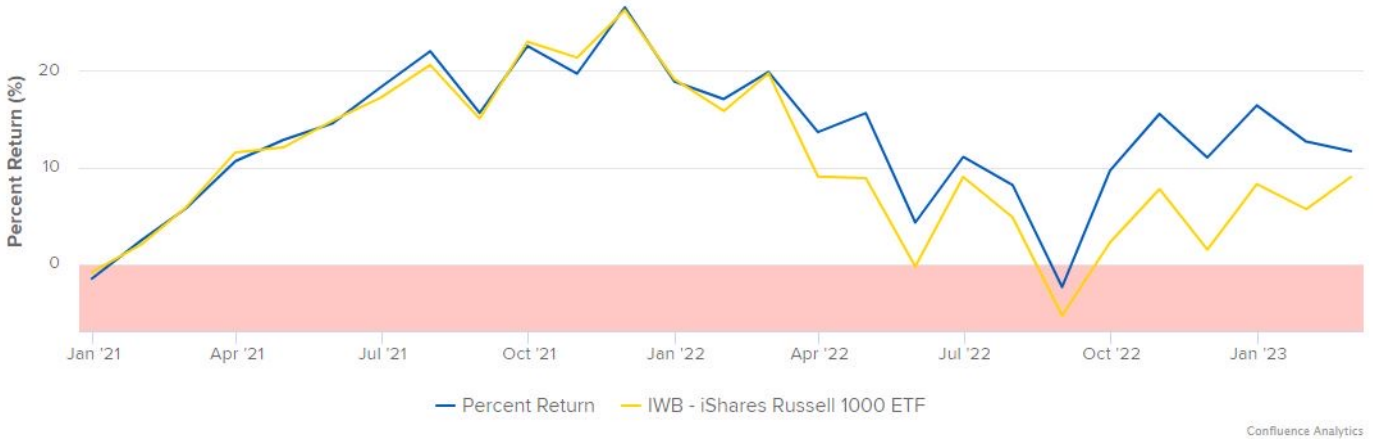
Confluence Analytics

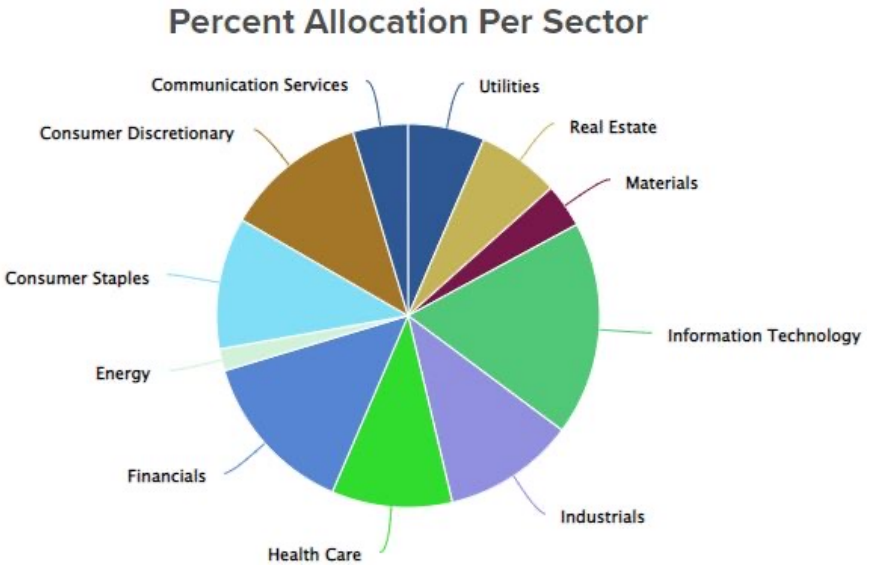
Carbon Signal 3 vs 1yr Return

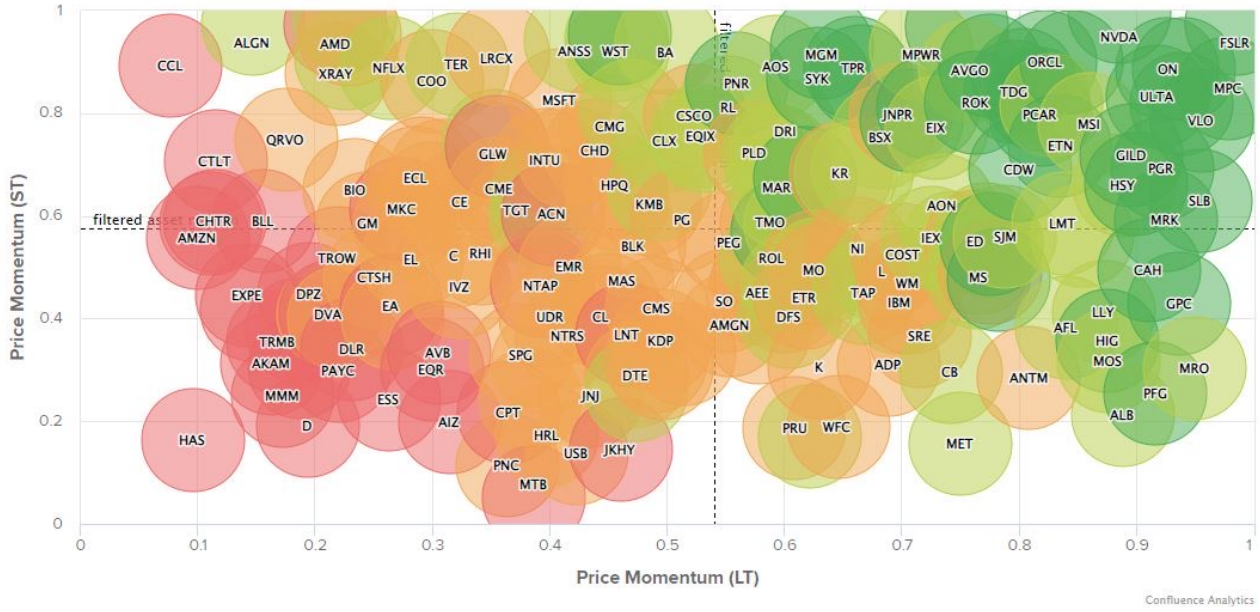


Landscape of 1-yr Returns and Carbon Signal 3 Rank

Carbon Signal 3 Model







Confluence Analytics

Signal 3 – Large Cap

Top 25% Carbon Signal 3

Outperformed over 1-yr and since inception

Thank you!