



DEFINING ESG

- Environmental, Social, and Governance (“ESG”) are the main factors used to measure the sustainability or ethical impact of an investment.
- Numerous underlying elements comprise the main ESG factors. Data with breadth and depth is key.

TAKEAWAY

We provide complete, comprehensive coverage of all ESG factors and underlying elements.

E ENVIRONMENTAL	Carbon Footprint	
	Water Usage	
	Supply Chain Efficiency	
	Environmental Disclosure	
	Legal Record/Fines	
S SOCIAL	Employee Disclosure	
	Recent Data Breach	
	Pay Ratio	
	% Women Employees	
	Employee/Exec Turnover	
G GOVERNANCE	Board Quality	
	Audit/Tax	
	Compensation	
	Overall Disclosure	
	Shareholder Rights	

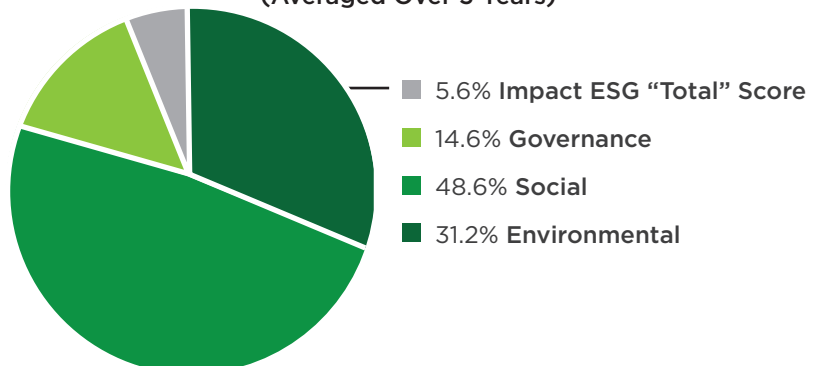
IMPACT ESG - TRADITIONAL METRICS

- Traditional ESG metrics focus on corporate impact and provide ratings systems that measure sustainability or quality.
- Impact ESG ratings, especially “total” scores, typically don’t integrate financial performance metrics, and so they may miss which ESG factors are materially linked to returns.

Typical “Total” Scores Based on Impact ESG Ratings:



ESG Factors & “Total” Score Performance Materiality (Averaged Over 5 Years)



NOTE: The chart above shows that on average Social factors have been the most material to performance, while Impact ESG “Total” Scores are nearly immaterial.

TAKEAWAY

Impact ESG metrics are good for assessing corporate sustainability, but more attention should be paid to performance materiality.

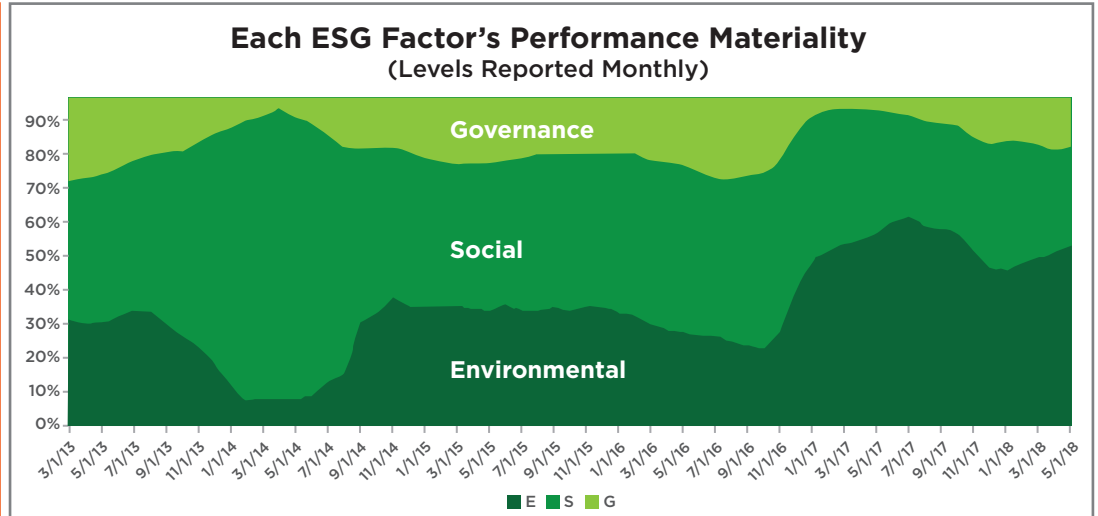
(See adjacent chart)

PERFORMANCE ESG - INNOVATIVE METRICS

- Mounting research suggests that ESG factors contribute to performance over the long-term.* In fact, our back-tested portfolio of Impact ESG Leaders generated annualized alpha of 1.24%.
- Through innovative analysis, we learned which, when, and how much certain ESG factors mattered to performance. Given these unique insights, we can then forecast returns and impact levels. (See the chart below)

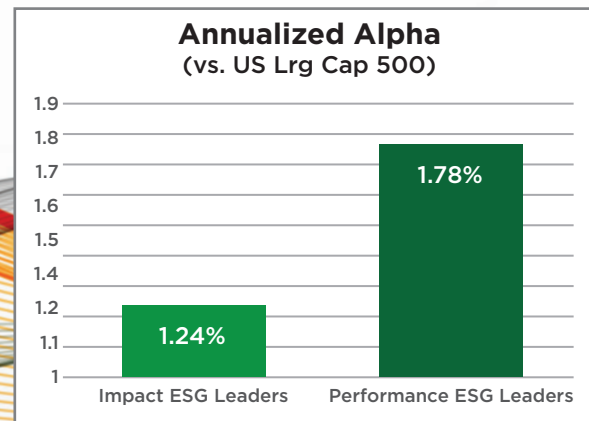
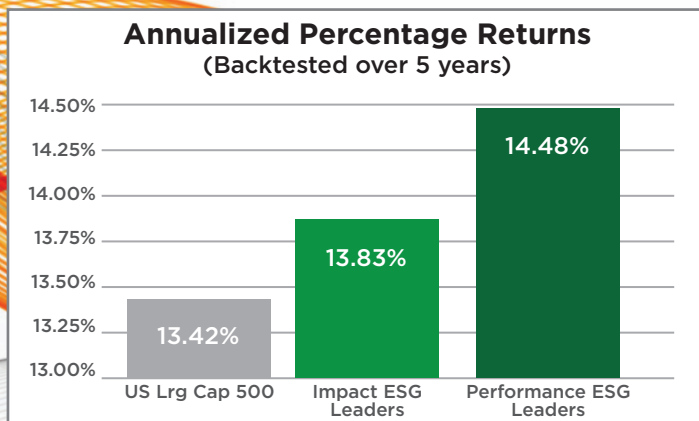
TAKEAWAY

Investing in companies with high-ranking ESG factors can create excess returns. By knowing when and how much each ESG factor matters to performance, you can achieve even more.



SUPERIOR RESULTS

- By having the most effective and material ESG data metrics, investors will be able to create a performance edge.
- To prove this point, we developed two model portfolios, Impact ESG Leaders and Performance ESG Leaders, to gauge their respective performance and deduce any excess returns. (See below)



CONTACT US TO LEARN MORE:
esg@etfg.com or (212) 223-3834

NOTE: "Impact ESG Leaders" are the top 30% of US stocks from our normalized, ranked universe based on ESG factors. "Performance ESG Leaders" are the top 30% showing correlations between ESG factors and improved alpha. Both portfolios are equally-weighted and rebalanced monthly.

* Khan, Serafeim and Yoon (2015). "Corporate Sustainability: First Evidence on Materiality," Harvard Business School Working Paper No. 15-073. Friede, Busch and Bassen (2015), "ESG and Financial Performance: Aggregated Evidence from More than 2000 Empirical Studies." Journal of Sustainable Finance & Investment. Richard Hitchens, Sandra McCullagh and Chris Parks (2014) "Finding Alpha in ESG." Credit Suisse ESG-D Series, 19 June 2015. Northern Trust (2014, "Doing Good and Doing Well - How Quality Can Enhance Your ESG Strategy."