High Cash Flow and Cost-Efficient ESG Strategy

Presented by: *The Big Shorties*

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Investment decision: *Invested $50,000 in the ESG Fund*

Introduction:

We chose to focus on the ESG fund because while it has grown over the years, a lot of ESG exposure today is concentrated in a few mega-cap tech names. Our ESG sleeve felt too passive and lacked companies with strong, real fundamentals. Our goal was to add a strategy that targets firms generating high cash flows and maintaining cost efficiency. These are characteristics that support both long-term profitability and sustainability.

Trading Strategy Details:

Our strategy systematically screens U.S. large-cap ESG companies for high growth in cash flow from operations (CFO) and low or improving cost of goods sold (COGS) growth. The goal is to identify firms that expand profitably and generate real cash while improving operational efficiency.

We built the screen using Bloomberg, with the following filters:

Market capitalization above $10 billion

Top 25% CFO growth (current fiscal year estimate)

Bottom 10% COGS growth (one-year change)

ESG-qualified U.S. companies only

The portfolio holds 10 positions, rebalanced quarterly, and weighted equally.

Backtesting Performance:

We conducted backtesting over 10-year, 3-year, and 1-year periods, and in all cases, our strategy outperformed SPY. The results were consistent, showing that companies with strong cash flow generation and cost efficiency tend to deliver steady excess returns across different market cycles.

One of the most significant parameters in our testing was market capitalization. We found that including smaller-cap companies introduced weaker performance and higher volatility, likely due to less consistent fundamentals and lower operating stability. Limiting the screen to firms with a minimum $10 billion market cap significantly improved both return quality and consistency.

The strategy exhibited no signs of excessive risk or major drawdowns, maintaining stable performance even through periods of heightened market volatility. Because it focuses on financially strong, operationally efficient firms, it offers a defensive return profile that compounds steadily without taking on disproportionate risk. Overall, the backtest supports this as a low-volatility, high-quality ESG strategy that consistently exceeds the performance of SPY.