

The background is a blurred image of a financial document, likely a stock market report or newspaper. It features various charts, including a line graph showing an upward trend and a bar chart. Text elements include "HIGHEST MOVING", "Friday", "ImgnTech", "Share Price", "Change on day 32.30", "2013/2013", "52 week", "High", "Low", "Vol", "Pre 100s Stock", and "2013/2013". A semi-transparent red rectangle is overlaid on the center of the image, containing the title and authors.

ESG High Cash Flow

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Investment Thesis

Idea: High Cash Flow and Cost-Efficient ESG Strategy

Origin: This idea was inspired by the research paper “Real Earnings Management and Subsequent Stock Returns” (Li, 2010). The paper shows that firms with strong and stable operating cash flows tend to command valuation premiums and deliver more persistent future returns

Strategy: *High Operating Margins and Low levels of production costs outperform the S&P500*

Historical Performance: 14.19% Inflation Adjusted Annual Return (5 – Year CAGR)

Recommendation: *Buy \$50,000 position in High Cash Flow, Low COGS ESG Strategy Fund, Sell ESGV*

What to Sell: Sell ESGV due to its broad, cap-weighted composition that overweights mega-cap tech and underrepresents operationally efficient firms.

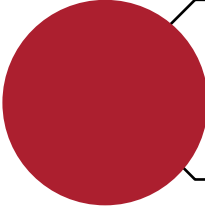
Effect on Portfolio: Reduces volatility, enhances returns, and improves diversification



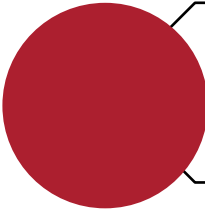
What is High Cash Flow and Cost-Efficient?



Focuses on **U.S. large-cap ESG stocks** with **top percentile cash flow from operations (CFO) growth** and **declining cost of goods sold (COGS) growth**.



Supported by **Ball et al (2016)**, which finds operating cash flow explains cross-sectional stock returns better than earnings or accrual measures.



Firms with **strong CFO growth** demonstrate superior earnings quality and lower likelihood of manipulation compared to net income



Low or improving COGS growth signals **operational efficiency and pricing power**, key indicators of sustainable profitability.



Back Testing

Back testing Method: Bloomberg Equity Screening

Data Pulled From: Bloomberg, ESG Fundamentals, various market research, academic studies

Rebalance Frequency: Quarterly

Number of Positions: 10

Number of Years Back-Tested: 10, 3, 1

Minimum Stock Market Cap: \$10 billion

Weighted: Equal Weighting for all 10 stocks

Currency: USD



Backtesting Implementation Details

| | |
|-----------------------------------|-----------|
| # OF STOCKS | 10 |
| MIN MARKET CAP | \$10.5B |
| MIN MONTHLY TRADING VOLUME | \$4.1M |
| WEIGHTING SCHEME | EQUAL |
| REBALANCING FREQUENCY | QUARTERLY |
| TIME FRAME | 10 YEARS |
| CURRENCY | USD |



Backtesting Results - Characteristics

| <u>5-Year Analysis*</u> | Mean | Min | 25% | Median | 75% | Max |
|--|-------------|------------|------------|---------------|------------|------------|
| Market Cap (\$Billions) | 22.7 | 10.5 | 11.46 | 46.9 | 82.5 | 113.3 |
| P/E Ratio | 19.8x | 11.2x | 15.5x | 19.0x | 23.4x | 28.8x |
| Trading Volume (\$Millions) | 7.8 | 4.1 | 5.6 | 7.2 | 8.7 | 10.3 |
| Share Price | \$146.80 | \$72.60 | \$109.10 | \$143.90 | \$170.20 | \$244.10 |

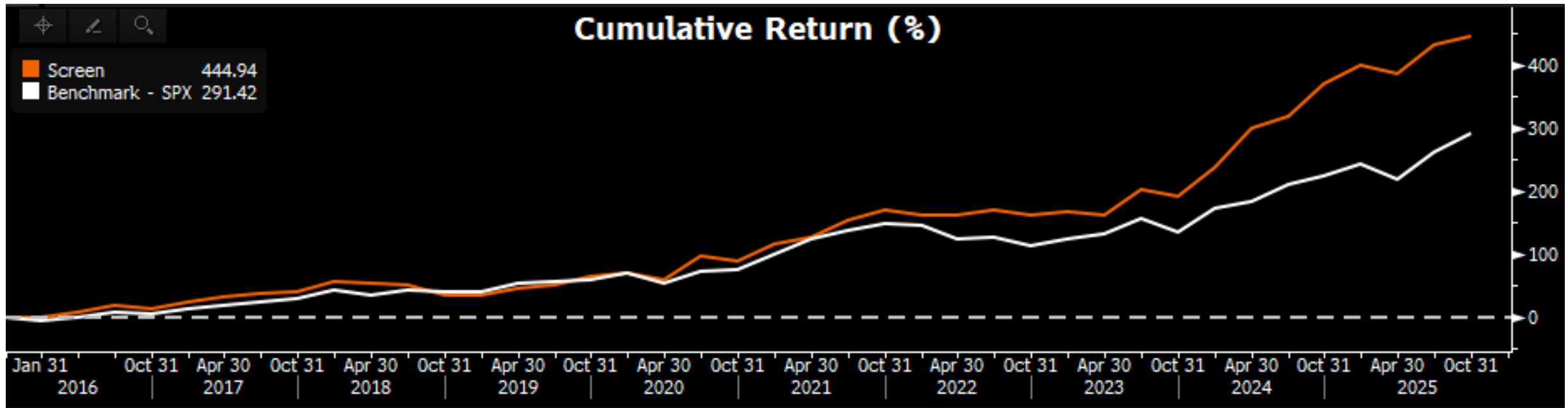


Back test Criteria

| Selected Screening Criteria | | Matches | | |
|-----------------------------|--|---------|---|---|
| Security Universe | | 1594323 | | |
| 51) | :: Trading Status: Active | 574202 | | ⊗ |
| 52) | :: Exchanges: United States | 28001 | | ⊗ |
| 53) | :: Indices: Bloomberg ESG Score Total Coverage Index | 3518 | | ⊗ |
| 54) | :: Current Market Cap >= 10000 Million | 712 | i | ⊗ |
| 55) | :: Top 25 Sequential Percentile Rank - Higher is Better(Current FY CEst Cash Flow From Operations % YoY) | 16 | i | ⊗ |
| 56) | :: Top 10 Sequential Rank - Lower is Better(LF Cost of Goods Sold - 1 Yr Growth) | 10 | i | ⊗ |



Backtesting Results – 10yr Performance



| <u>Annualized</u> | Return | α^* | β^* | σ | Sharpe | Treynor | Max DD | Info Ratio* | Idio. Risk |
|-------------------|--------|------------|-----------|----------|--------|---------|---------|-------------|------------|
| 10 Year | 18.48% | 5.12 | 0.95 | 20.23 | 0.93 | 0.15 | -51.05% | 0.36 | 0.09 |
| 10 Year SPY | 11.08% | -- | 1.00 | 18.61 | 0.59 | 0.07 | -52.98% | -- | -- |

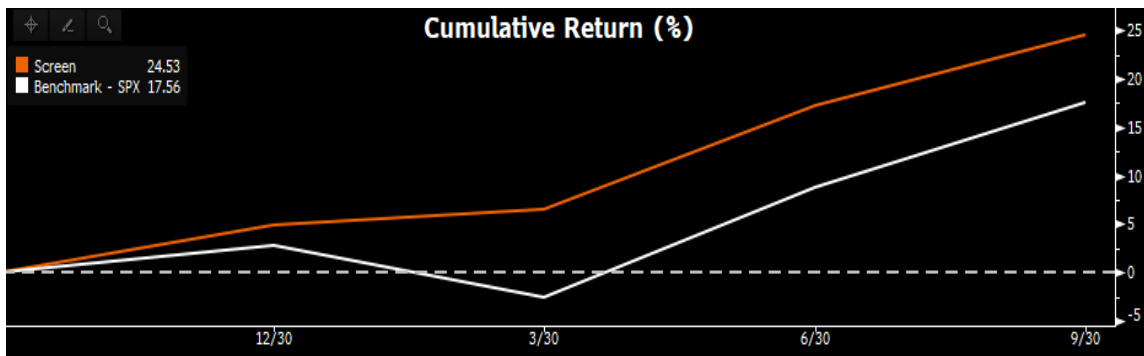


Quarterly v. Monthly Returns

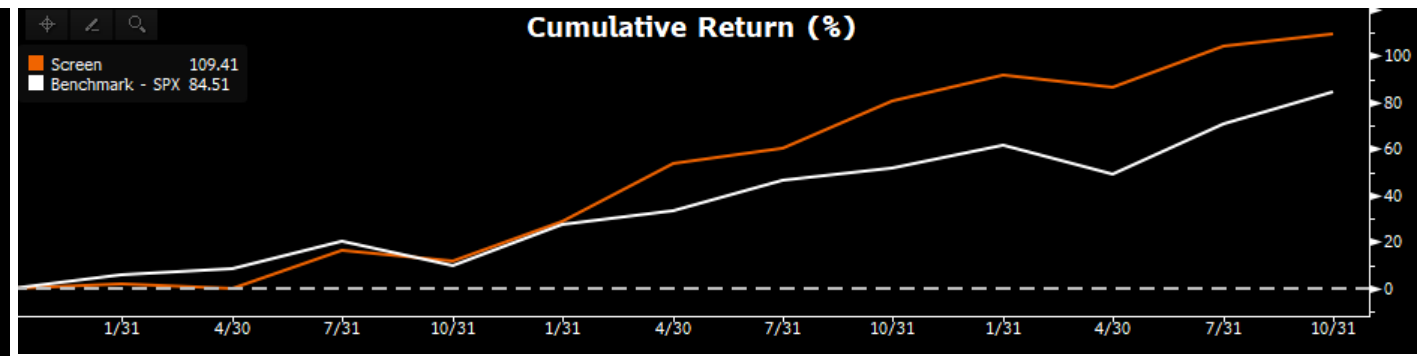


Backtesting Results – 1 and 3Yr Performance

1 Year Back Test



3 Year Back Test



| <u>Annualized</u> | Return | α^* | β^* | σ | Sharpe | Treynor | Max DD | Info Ratio* | Idio. Risk |
|-------------------|--------|------------|-----------|----------|--------|---------|---------|-------------|------------|
| 3 Year | 28.46% | 8.78 | 0.92 | 21.11 | 1.51 | 0.27 | -34.74% | 0.39 | 0.10 |
| 3 year SPY | 12.97% | -- | 1.00 | 15.15 | 0.63 | 0.11 | -35.24% | -- | -- |
| 1 Year | 18.07% | 1.35 | 0.75 | 18.10 | 0.88 | 0.24 | -28.79% | 0.51 | 0.13 |
| 1 Year SPY | 8.73% | -- | 1.00 | 17.09 | 0.36 | 0.05 | -28.35% | -- | -- |



Recommended Purchases

| Name | Ticker | P/E Ratio | Monthly Trading Volume (\$M) | Market Cap (\$B) | Share Price | # of Shares | Total Value |
|---|-------------|-------------|------------------------------|------------------|-------------|-------------|-------------|
| Take-Two Interactive Software, Inc. | TTWO | 88.19 (est) | 1.47 | 47.29 | 255.36 | 20 | \$5,000 |
| Lumen Technology Inc. | LUMN | NaN | 20.22 | 10.54 | 10.31 | 485 | \$5,000 |
| The Coca-Cola Company | KO | 23.28 | 15.47 | 296.38 | 68.98 | 72 | \$5,000 |
| Lockheed Martin | LMT | 24.00 | 1.30 | 113.82 | 492.41 | 10 | \$5,000 |
| 3M Company | MMM | 21.28 | 3.01 | 88.45 | 167.17 | 30 | \$5,000 |
| Motorola Solutions, Inc. | MSI | 32.19 | 0.77 | 67.74 | 408.60 | 12 | \$5,000 |
| Rockwell Automation inc. | ROK | 38.27 | 0.69 | 41.42 | 370.21 | 14 | \$5,000 |
| Westinghouse Air Brake Technology Corporation | WAB | 28.19 | 0.98 | 34.95 | 205.92 | 24 | \$5,000 |
| Leidos Holdings, Inc. | LDOS | 17.81 | 0.75 | 24.44 | 190.74 | 278 | \$5,000 |
| CACI International Inc. | CACI | 24.82 | 0.26 | 12.41 | 562.44 | 201 | \$5,000 |



Sell Proposal – Sell \$50,000 of ESGV

Strategy Name: *ESGV Index*

Managing Group: *Old SIF*

Date Adopted: *9/13/2023*

Industry Focus: ESG (Environment, Sustainable, Governance)
Focused

| | SPY | ESGV |
|----------|--------|--------|
| Sharpe | 1.37 | 1.28 |
| σ | -0.09 | -1.14 |
| β | 1 | 1.07 |
| CAGR | 14.92% | 13.97% |

Mega-cap heavy: Concentrated in large tech names, limiting diversification.

Crowded exposure: High valuations in popular AI and growth names adds risk.

Weak selectivity: Passive ESG screen misses firms with strong fundamentals.

Seasonal Peak: *November–April*

Seasonal Trough: *August–October*

% of Overall Fund: *10.09%*



Effect on the Portfolio

| | Existing Portfolio | New Portfolio |
|-------------------------------|--------------------|---------------|
| Beta | 1.02 | 0.99 |
| Sharpe | 0.89 | 0.94 |
| Alpha (annualized) | -0.14% | 1.00% |
| Standard Deviation (M) | 4.99% | 4.92% |
| Standard Deviation (Y) | 17.28% | 17.04% |
| Expected Return* | 13.40% | 14.19% |

*Inflation adjusted 5Y CAGR



Effect on the Portfolio

Current Sector Allocation

| Sector | Total Value | % of Portfolio |
|-------------------------------|---------------------|----------------|
| Basic Materials | \$3,448.10 | 1.58% |
| Consumer Discretionary | \$25,904.37 | 11.87% |
| Consumer Staples | \$8,205.60 | 3.76% |
| Energy | \$- | 0% |
| Financial Services | \$27,301.06 | 12.51% |
| Healthcare | \$20,754.05 | 9.51% |
| Industrials | \$8,249.24 | 3.78% |
| Real Estate | \$18,942.70 | 8.68% |
| Technology | \$80,419.20 | 36.85% |
| Utilities | \$371.00 | 0.17% |
| Communication Services | \$24,638.61 | 11.29% |
| Total | \$218,233.92 | 100.00% |

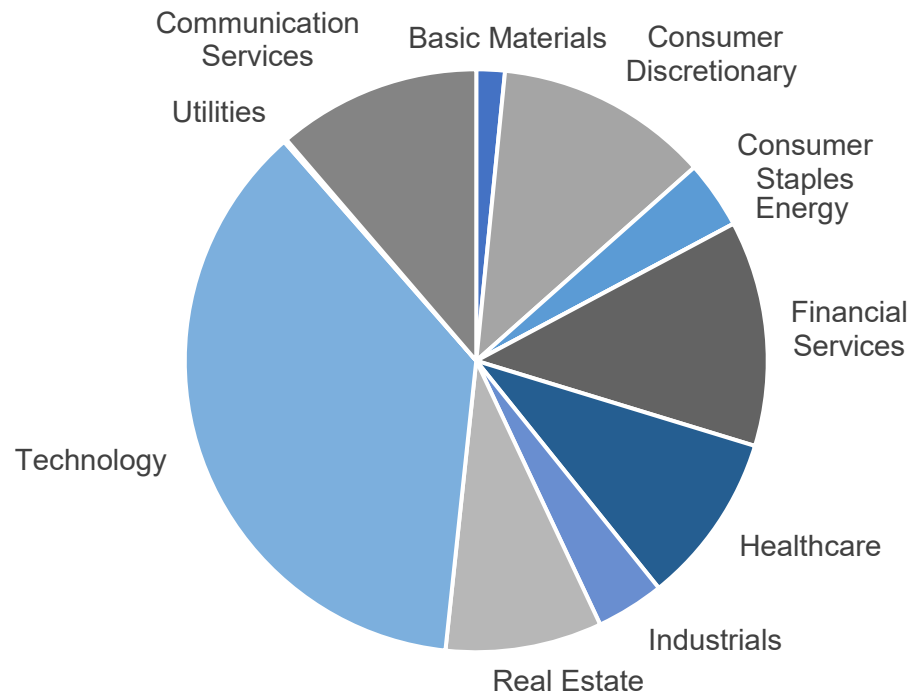
New Sector Allocation

| Sector | Total Value | % of Portfolio |
|-------------------------------|---------------------|----------------|
| Basic Materials | \$2,575.16 | 1.18% |
| Consumer Discretionary | \$19,575.58 | 8.97% |
| Consumer Staples | \$11,195.40 | 5.13% |
| Energy | \$- | 0.00% |
| Financial Services | \$20,644.93 | 9.46% |
| Healthcare | \$15,691.02 | 7.19% |
| Industrials | \$26,253.54 | 12.03% |
| Real Estate | \$17,589.65 | 8.06% |
| Technology | \$75,792.64 | 34.73% |
| Utilities | \$283.70 | 0.13% |
| Communication Services | \$28,632.29 | 13.12% |
| Total | \$218,233.92 | 100.00% |

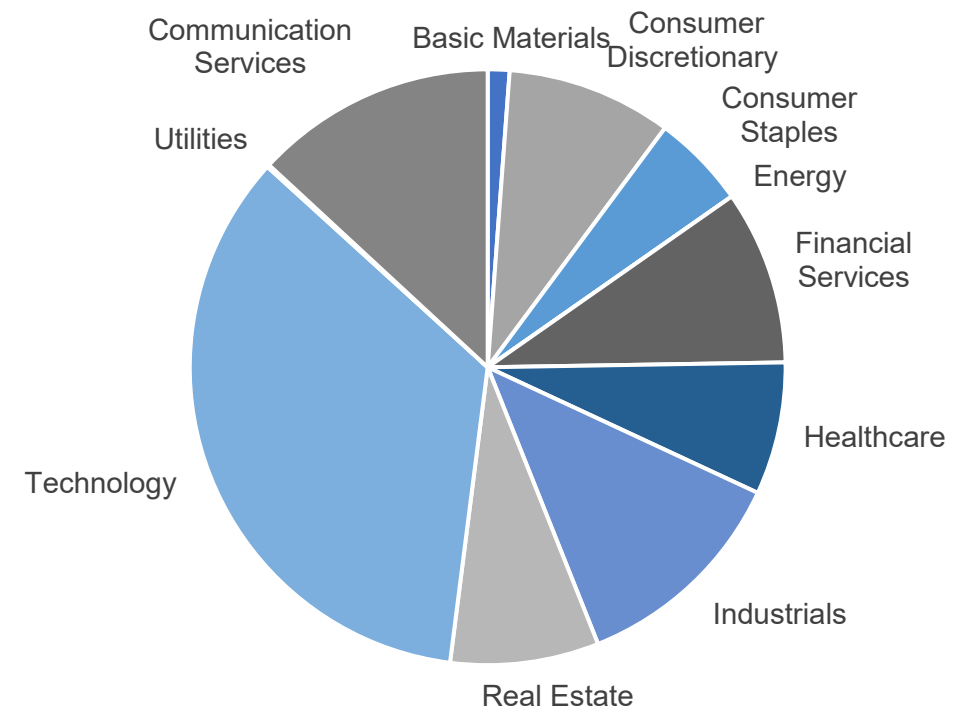


Effect on the Portfolio

Current Sector Allocation



New Sector Allocation



Recap

Idea – *Implement strategy to diversity fund and increase returns*

Strategy – *High Operating Margins and Low levels of production costs to outperform the S&P500*

Historical Performance – *14.19% Inflation Adjusted Annual Return (5 – Year CAGR)*

Recommendation – *Buy \$50k, In ESG Fund, Sell \$50k of ESGV in ESG Fund*

What to Sell – *Sell \$50k of \$207,603 in ESGV Index within ESG Fund*

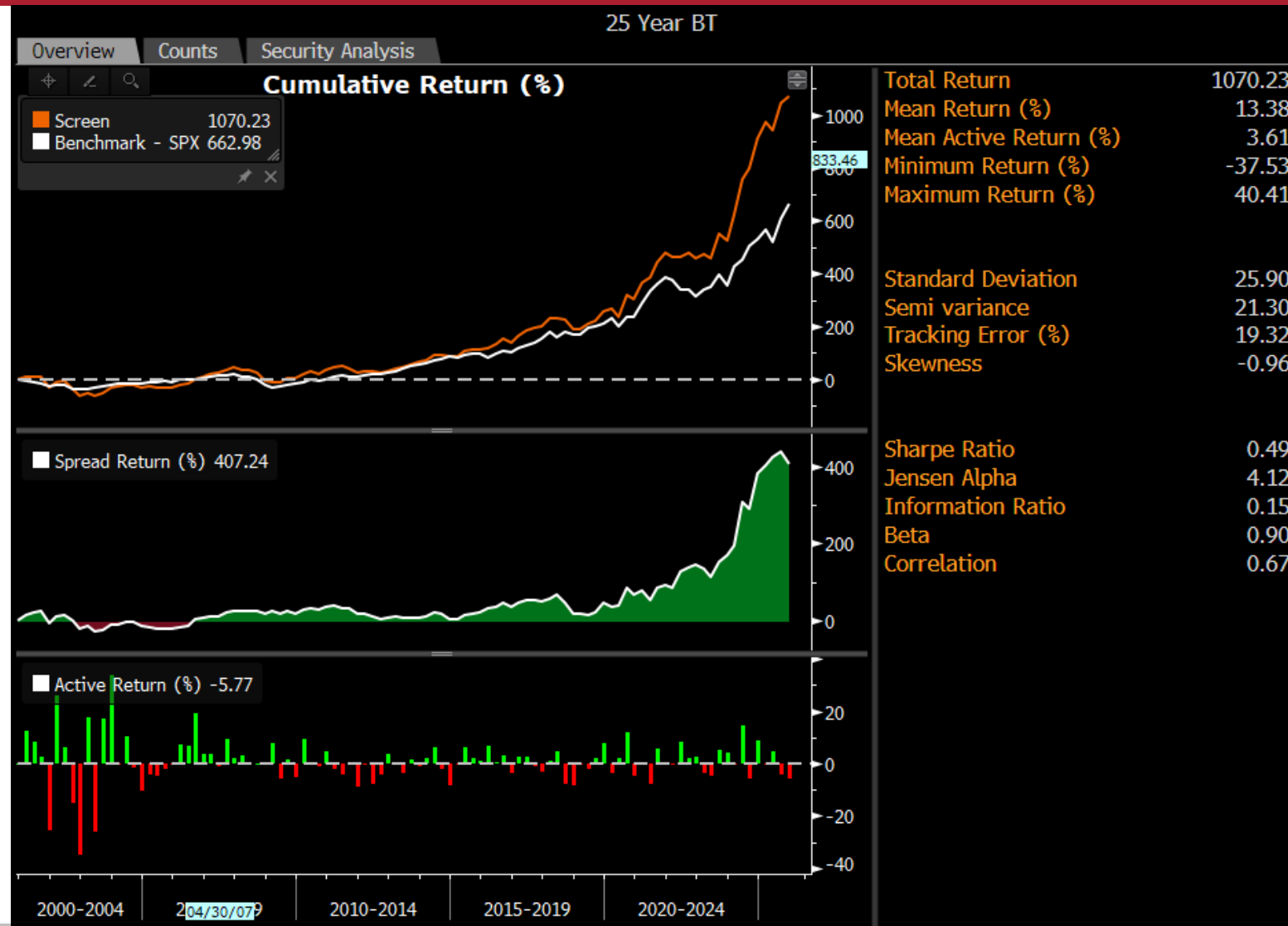
Effect on Portfolio – *Decrease Volatility, increases return & fund diversity*



Exhibits



25 Year Backtest

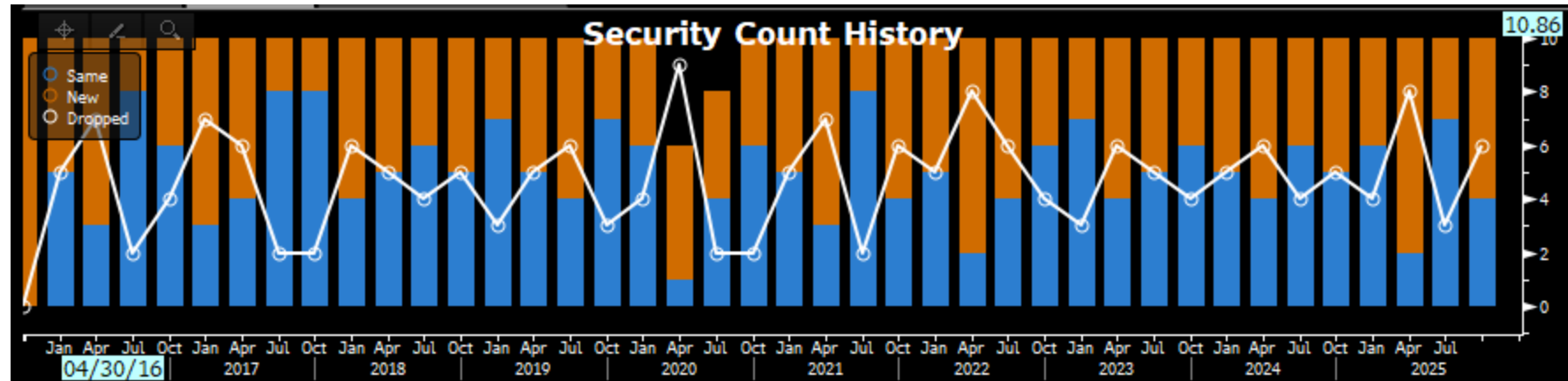


Lockheed ESG Score

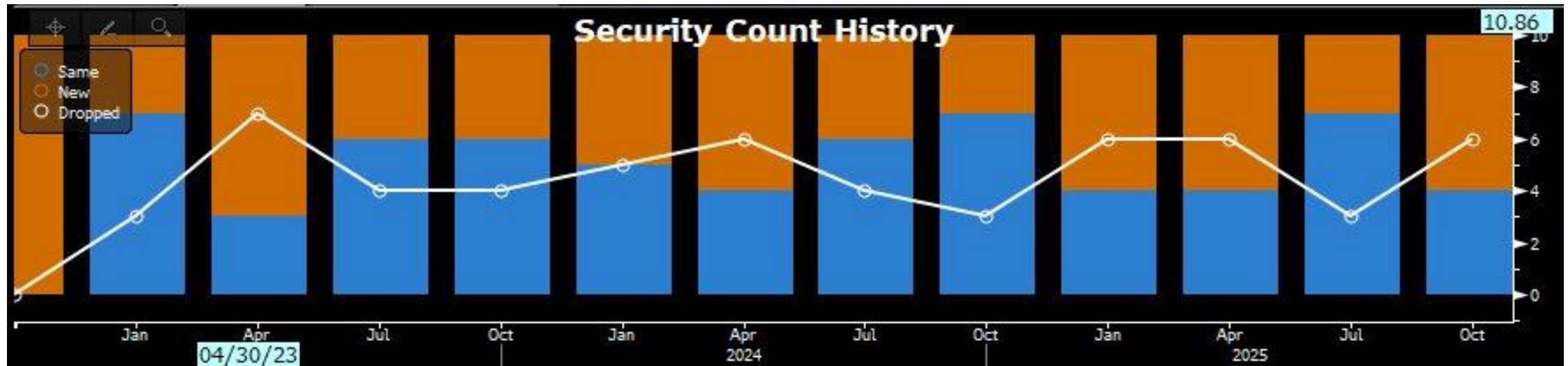
| | Score | | Trend | Vs Peers |
|---------------|-------|--|-------|----------|
| ESG Score | 7.25 | | +1.80 | Leading |
| Environmental | 7.30 | | +0.92 | Leading |
| Social | 6.50 | | +3.14 | Leading |
| Governance | 8.28 | | +0.11 | Leading |



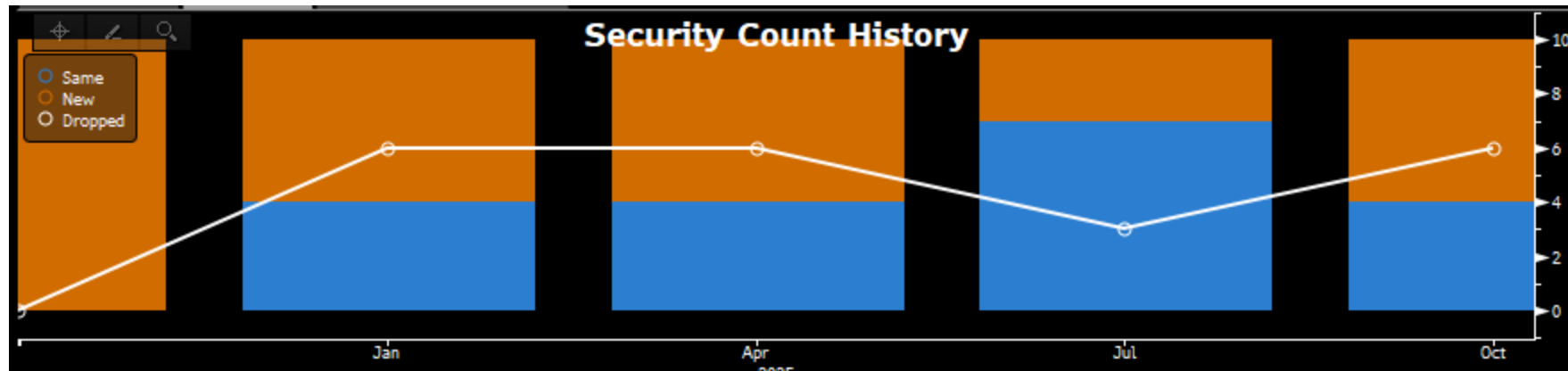
10 Year Turnover



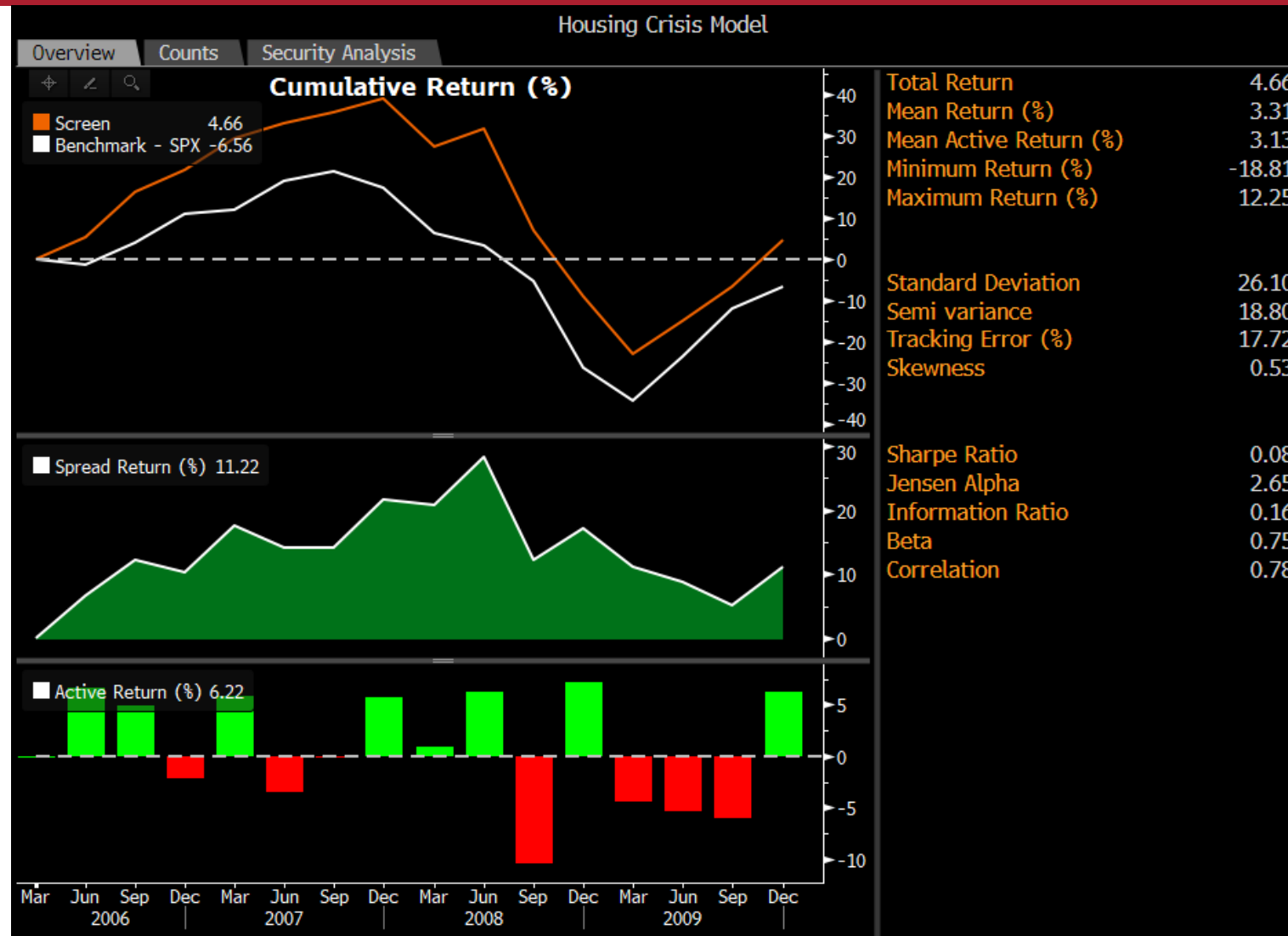
3 Year Turnover



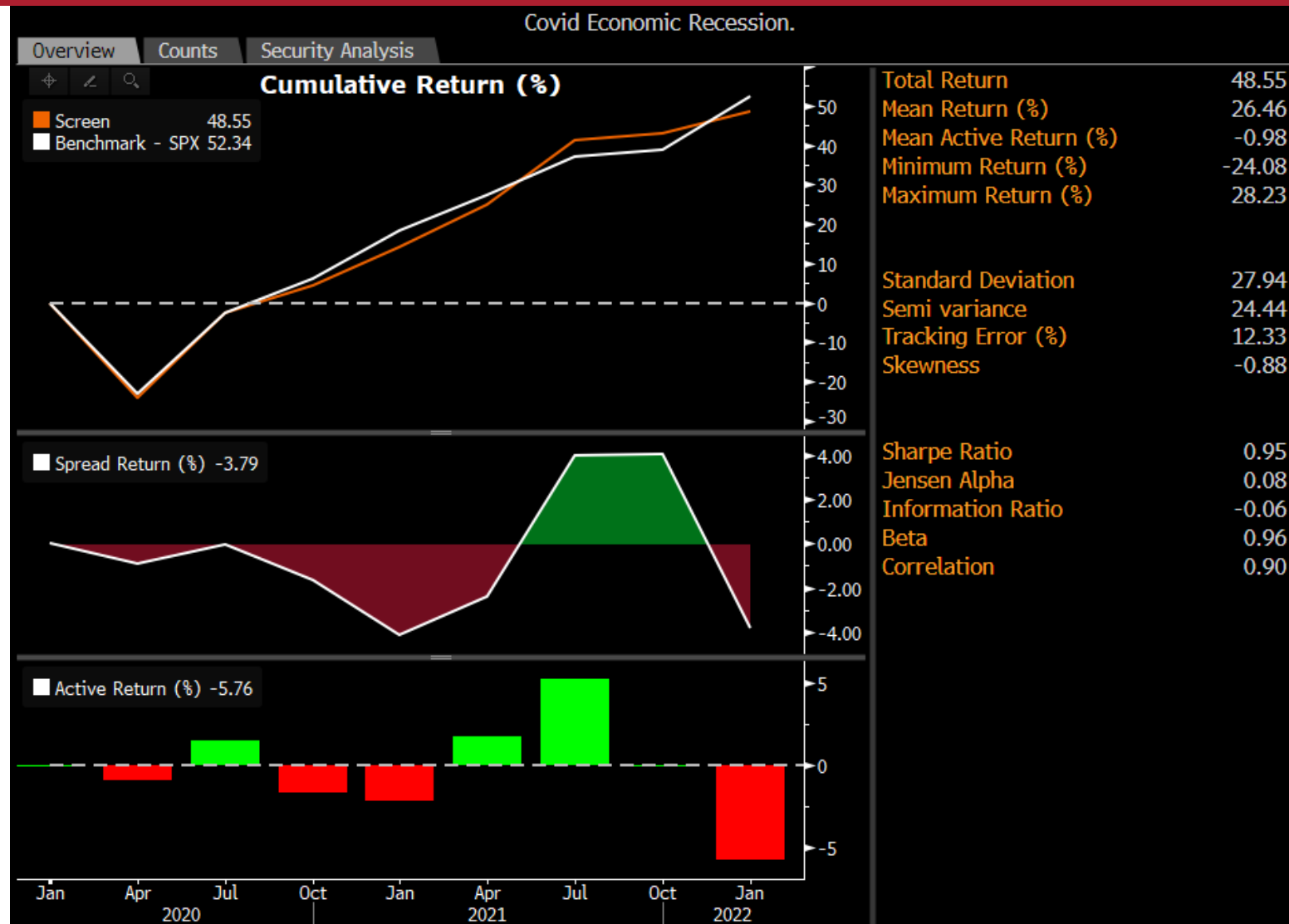
1 Year Turnover



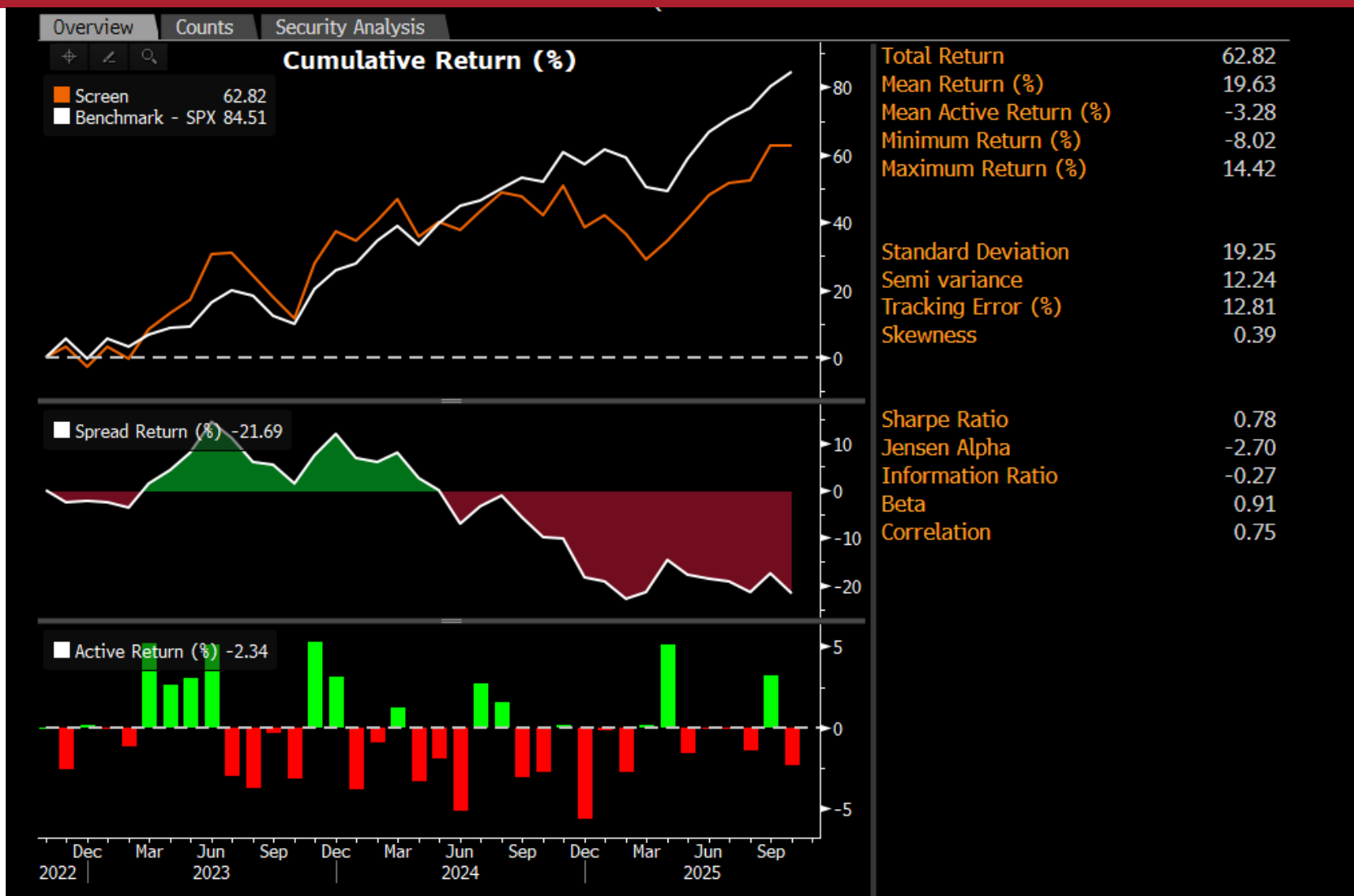
Returns over the Housing Crisis (2006-2009)



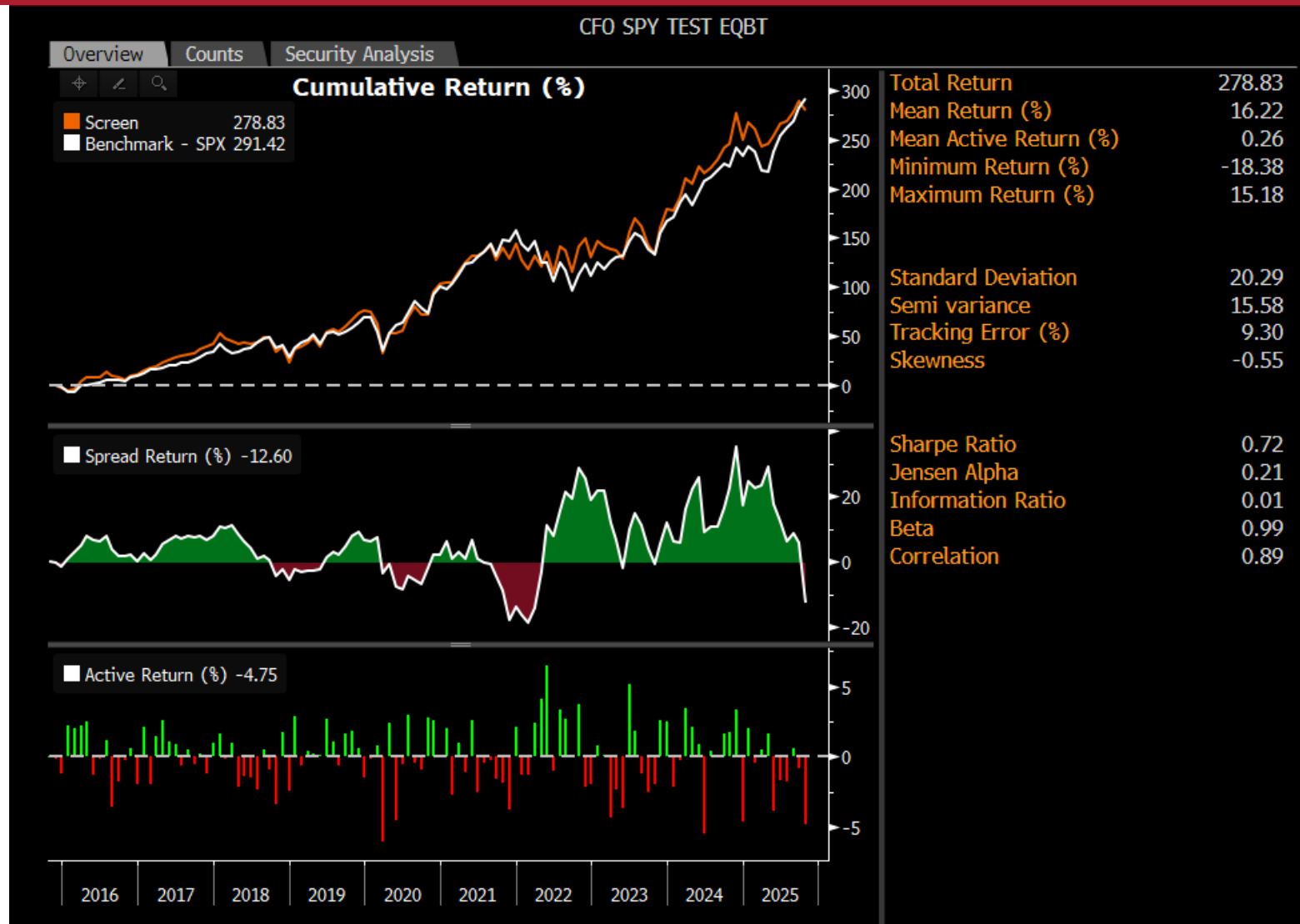
COVID Recession (Nov 2019-Jan 2022)



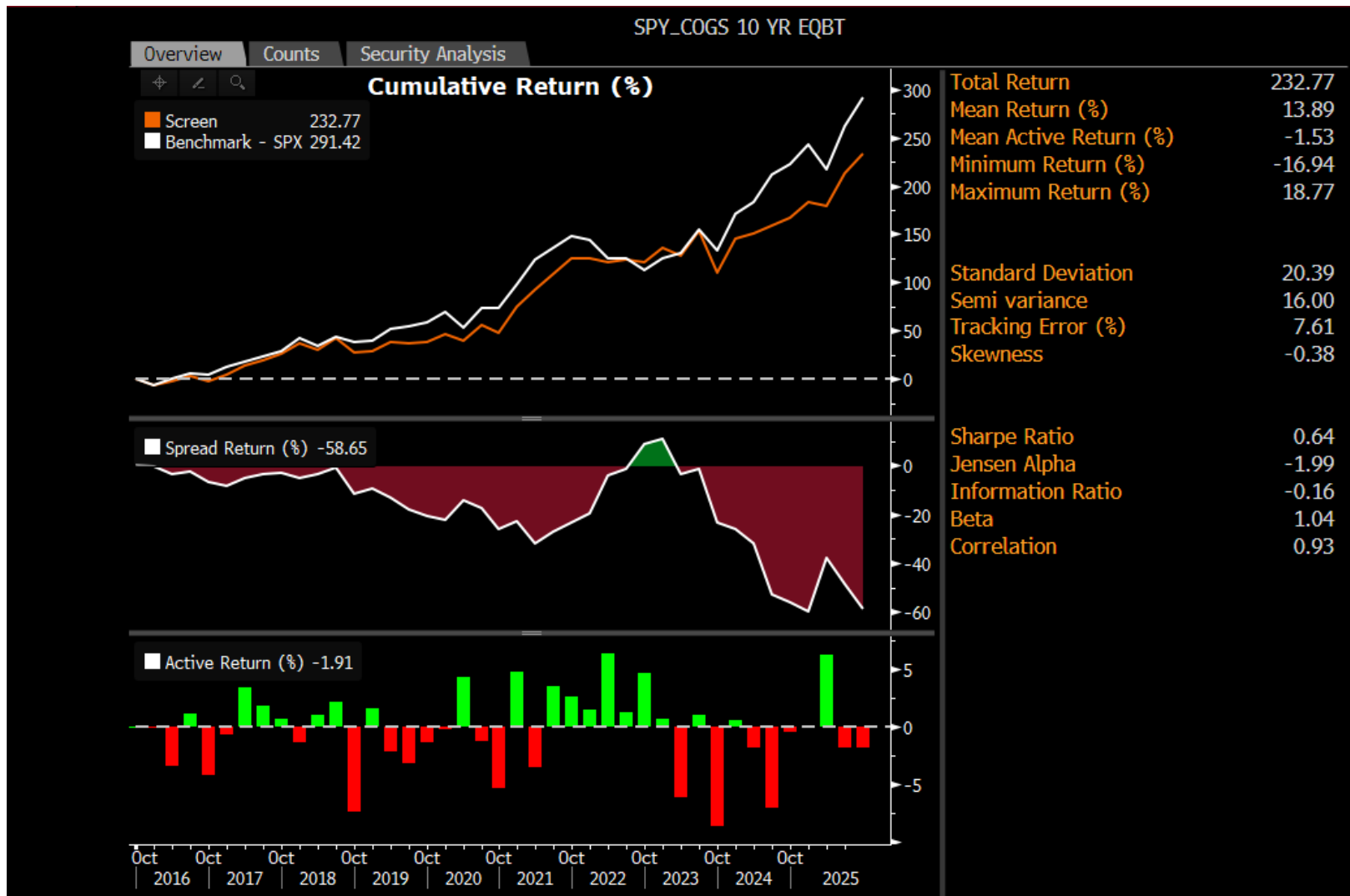
Reverse Backtest



Cash Flow Operations Spy Backtest (10yr)



Lower COGS 10 yr Backtest SPY



All criteria on SPY (10yr)

