

Trend-Adjusted Value Momentum in ESG (ESG-TAVM) Write up

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Investment decision: Invest

Introduction:

Our group decided to look into a strategy that could help improve the performance as well as diversify the ESG fund. We found two academic articles; “Finding value using momentum” (Bijon Pani and Frank Fabozzi) and “ESG Integration: Value, Growth and Momentum” (Lars Kaiser) which outline a strategy based on momentum and value and then implemented that criteria into Bloomberg to find out 14 stocks.

Strategy Details:

This strategy pairs value, stocks with low prices relative to fundamentals, and momentum, stocks with strong recent earnings, in order to achieve a more stable performance since their risks offset each other. We then implemented the filters from the strategy into Bloomberg to find companies that fit the strategy's criteria.

We implemented the screening criteria in Bloomberg using the following filters:

- Trading Status: Active
- Exchanges: United States, New York, NYSE American and NASDAQ GM
- Indices: Bloomberg ESG Data Index
- Current Market Cap>1000 million
- Top 10 Sequential Percentile Rank: Higher is Better (Period over Period Growth of EBITDA/EV
- Yield from 8 quarters, Percentile/Momentum>90

These different criteria helped bring the number of stocks down to 14, which we decide to invest in equally. The results demonstrated a 679% cumulative 10-year return and 47% 1-year return which outperformed ESGV by quite a bit. Additionally, the Monte Carlo simulation showed improvements in Sharpe ratio, expected return and sector diversification. Incorporating these new stocks also increases exposure in the Basic Materials and Industrials which helped to even out the portfolio's sectors.

Conclusion:

By reallocating \$50,000 from ESGV to the TAVM strategy, the ESG Fund would improve in quality as well as gain exposure to high quality and growth companies that align with the ESG principles. This would help to enhance overall portfolio performance and risk adjusted returns.