



# Investing in the Next Economy™

## Environmental, Social, and Governance (ESG) Criteria

### Green Alpha Investment Philosophy

High-functioning, innovative companies creating and accelerating solutions to system-level risks like the climate crisis, resource degradation, worsening inequality, and the human disease burden are the greatest growth drivers of the twenty-first century.

Green Alpha's investment philosophy is straightforward: don't invest in companies that cause global systemic risks; instead, invest in the smartest, most rapidly evolving, economically competitive sustainability solutions.

Prudent portfolio management does not involve appending ESG variables to the end of an investment process; rather, material variables should be analyzed throughout the investment process, with the most essential variables evaluated first. The opportunity to create high-impact, alpha-generating public equity portfolios exists when the research process is intentionally designed to apply impactful ESG criteria in the right order, and solely to companies providing solutions to system-level risks.

### Green Alpha proactively seeks companies producing products and/or services that are:

#### Environmental Criteria

- ✓ leapfrogging innovators helping solve, mitigate, and/or adapt to our greatest system-level risks, including the climate crisis, resource scarcity and degradation, and the human disease burden
  - examples include: renewable energies, zero-emissions transportation, biotechnology, sustainable agriculture, organic and natural food and beverages, freshwater stewardship
- ✓ conserving and preserving natural resources
- ✓ reducing waste, including electricity, water, plastics, and other natural resources
- ✓ dramatically improving the economic productivity (*more or better outputs with fewer inputs*) of the economy, such that all people can enjoy a good standard of living without exceeding the planetary boundaries
- ✓ creating high-quality, safe products created from waste/recycled materials, enabling a circular economy

#### Social Criteria

- ✓ identifying disruptive therapeutics and vaccines that solve risks associated with the human disease burden
- ✓ helping solve, mitigate, and/or adapt to the climate crisis and resource degradation, which disproportionately affect women, children, low income, and other vulnerable groups
- ✓ increasing equal, democratized access to critical information
- ✓ increasing equal, democratized access to ownership of the economic means of production
- ✓ enhancing the quality of life for consumers by delivering safe, healthy, and high-quality products and services

After identifying solution-producing companies, Green Alpha looks for those operating in ways that produce long-term value for shareholders and society as a whole by:

### Environmental Criteria

- ✓ residing in and building LEED-certified (*and above*) facilities
- ✓ reducing use of energy, water, virgin resources, and land; strong preference for urban infill and brownfielding
- ✓ utilizing true renewable energies, preferably without relying on purchasing carbon offsets
- ✓ recycling materials, including water and other resources, at increasingly higher rates annually
- ✓ actively reducing the volume and toxicity of waste, effluents, and emissions
- ✓ creating roadmaps to achieve aggressive goals for initiatives like RE100, EP100, EV100, and B Corporation

Green Alpha is the only firm allowed to utilize the Sierra Club's environmental and social investment criteria

### Social Criteria



- ✓ increasing equal, democratized access to critical information
- ✓ executing with above-average diversity on the executive team and board of directors
  - where women and minorities are not only represented in sufficient numbers, but are also in key positions of influence, including top c-suite roles and board committee chairs
- ✓ having HR policies, procedures, and programs to promote diversity and equity among all employees, including equality in compensation practices
- ✓ building policies and procedures to foster equality, including equal access to health care and other benefits
- ✓ increasing equal, democratized access to ownership of the economic means of production, including facilitating ownership of the company's shares by employees
- ✓ responding quickly and effectively to product safety concerns
- ✓ using responsible pricing, marketing, and other sales practices
- ✓ demonstrating support of work/life balance, including granting employee time for volunteer opportunities
- ✓ ensuring indigenous peoples share the same rights and privileges of all members of society, including ownership of their lands and cultures
- ✓ deploying programs that benefit women, minorities, and other economically disadvantaged groups

### Governance Criteria

- ✓ demonstrating good stewardship of capital. Reinvestment into the company = wealth creation. Green Alpha has a strong aversion to buybacks and a strong preference for capex and R&D investments.
- ✓ hiring audit firms that are PCAOB regulated; therefore, follow PCAOB standards
- ✓ exhibiting a culture and commitment to high standards of ethics, internal controls, and transparency
- ✓ paying executive and board member compensation in a manner well-aligned with shareholders
- ✓ recruiting board members representing a variety of ages, educational and experiential backgrounds, cultures, races, sexual orientation, and genders

Green Alpha votes proxies inline with detailed, robust proprietary guidelines. Further each vote is analyzed and executed in-house, because a sufficient vendor has not yet been identified.

Green Alpha's focus on solely investing in the solutions to our greatest system-level risks, and never investing in the causes, means that a Green Alpha portfolio never invests in any of the following:

### Fossil Fuels

- Green Alpha's no-tolerance approach includes, oil, coal, and natural gas
- it also includes any identifiable suppliers to those industries, like water utility companies and makers of infrastructure hardware, that receive  $\geq 15\%$  of their revenues from such activities
- it includes major demand drivers of fossil fuel extraction and production, like internal combustion engine automobile manufacturers ( $\geq 10\%$ ), and utilities that derive any revenues from burning fossil fuels
- Green Alpha also never invests in the means of transporting fossil fuels (*zero tolerance*)

### Nuclear Power Generation

- no company that generates electricity via nuclear reaction (*zero tolerance*)

### Inorganic Agriculture

- no makers of resource-degrading, life-harming chemicals like Glyphosate (*zero tolerance*)

### Harmful Beverages

- no company that manufactures and distributes soda beverages as  $\geq 5\%$  of their revenues
- no company that derives revenues from alcohol manufacturing or distribution (*zero tolerance*)

### Weapons

- no weapons producers (*zero tolerance*)

### Tobacco

- no tobacco farming, production, or distribution (*zero tolerance*)

### Gambling

- no company with  $\geq 15\%$  revenues from gambling, gambling infrastructure, hotels, or casinos

### Animal Atrocities

- animal testing is only permissible when it is required by law (e.g. healthcare applications)
- no abuse of animals is permitted, including for entertainment or carrying out irresponsible farming practices

### Consumer Safety

- no company with a history of marketing unsafe products, asserting false marketing claims, or engaging in other forms of irresponsible marketing

We avoid companies with business operations that are unsustainable over the long term, including those that:

### Environmental Criteria

- have an egregious environmental record or pattern of environmental violations, have caused environmental disasters, or responded negligently to environmental issues
- engage in practices resulting in negative impacts to global trade, and those actively working against cooperative efforts to fight issues like the climate crisis and global resource degradation
- are opponents of local, state, federal, or global climate change policies, including those that
  - donate material moneys to political groups and/or politicians with poor environmental voting records
  - donate money to or are members of American Legislative Exchange Council (ALEC)

### Social Criteria

- donate material moneys to political groups and/or politicians with poor voting records on health, equality, and other social inclusion issues
- have a history of health and safety problems
- possess significant compensation gaps across gender, race, age, and cultural demographics
- demonstrate evidence of employment discrimination
- lack employee equity ownership
- have a history of violating fair labor standards and freedom of association
- are targeted by active organized labor boycott, and/or utilize forced labor, child labor, or sweatshops
- own or operate private prisons
- abuse, or support the abuse of, human rights

### Governance Criteria

- lack sufficient diversity at management and board levels, as well as across employee base, since there is a strong correlation between homogenous groups and higher conflicts of interest and governance controversies
- exhibit too much insider influence on board oversight
- engage in any egregious activities that compromise stakeholder value, including:
  - financial reporting irregularities
  - evidence of insufficient internal controls
  - extortion, bribery, and/or corruption
  - securities fraud

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