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[Volume 1, Issue 5]

Environmental, Social, Governance

Welcome to ESG Investing, the Valuentum Way!

Governance: The G in ESG Investing

By Valuentum Analysts

No discussion of ESG investing would be complete without addressing the role of corporate governance ("stewardship") in equity investing. As with the other aspects of ESG investing, corporate governance covers a lot of ground. It can include pretty much anything related to how a company is run, including leadership, executive compensation, audits and accounting, and shareholder rights. These areas are just the tip of the iceberg, however.

A company with good corporate governance is one that is run well with the proper incentives and with all stakeholders in mind, from employees to suppliers to customers to shareholders and beyond. Good corporate governance practices decrease the risk to investors as it cuts through conflicts of interest, misuse of resources, and a general lack of concern for all stakeholders. A company that fails at implementing good corporate governance is at increased risk of litigation or scandal, which could wreck the share price.

With the turn of the century, the dot com bust probably exposed most prominently the need for good corporate governance practices. Fraud was rampant. Whether it was the former CEO of Tyco International receiving millions in unauthorized bonuses, the actions of those at the top of Enron that created one of the biggest frauds in corporate history, the scandal at accounting and auditing firm Arthur Andersen, the demise of MCI/Worldcom, or the questionable practices that led to the Global Analyst Research Settlement, Wall Street had lost its way.

In fact, a big reason why our firm Valuentum was founded is based on ensuring that investors get a fair shake and that someone is keeping a watchful eye not only on companies, but also on the sell-side stock analyst research that may still be full of conflicts of interest. As a result of the Global Analyst Research Settlement, all the big investment banks from Goldman Sachs (GS) to J.P. Morgan (JPM) to Morgan Stanley (MS) to UBS Group (UBS) and beyond had to pay stiff fines for producing conflicted, if not fraudulent research. We talk about how the poor corporate governance practices of the dot com bust and the questionable research from the investment banks served as the catalyst for the founding of Valuentum, itself, per our book *Value Trap*.

Contents

From *Value Trap*: (Brian Nelson) founded Valuentum in 2011 to help investors, to put investors first. It was all (he) knew. It was more than an extension of (his) principles as a CFA charterholder or (his) experiences at independent research giant Morningstar, however. There was something else to it. The research industry seemed to be flailing. The Global Analyst Research Settlement of 2003 helped to highlight the issues of conflict of interest in relation to securities analyst recommendations, but it only went so far. These ideals have not made it to the mainstream public, social media or blogosphere. In some ways, now 15 years after the research settlement, some investors may seem to be favoring the exact opposite of independent, objective analysis of stocks, confusing credibility and expertise with having "skin in the game."

Hardly anyone talks about the lessons of analyst research from the dot-com bubble anymore, where analysts were pumping "hot IPOs." While the abuses by the investment banks have been lassoed in, (we) feel investors still need something better, and not just more ambiguous data or more stock screeners. The conversation about investing for most investors seems to be limited to these types of topics or on financial advising, in general, such as saving for retirement, maxing out one's 401k, staying disciplined, and avoiding behavioral biases. There are blogs and websites that talk about stocks, of course, but access to high-quality financial analysis backed by iron-clad methods such as enterprise valuation just aren't as prevalent as they should be. Without enterprise valuation, an understanding of universal valuation cannot be attained. They are one and the same.

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Though Valuentum's work is heavily focused on fundamental and financial analysis within the context of enterprise valuation in deriving fair value estimates and fair value estimate ranges, we understand there's a lot more that goes into a successful company than just the numbers. We don't want investors to get caught up in the next Valeant Pharmaceuticals' fraud-and-kickback scandal, the next Lehman Brothers that tries to hide toxic assets, management teams that take on far too much leverage in derivatives as with what happened with American International Group (AIG) during the Great Financial Crisis, or companies like those in the news today such as opaque Special Purpose Acquisition Companies ("SPACs"), electric-vehicle truck maker Nikola (NKLA) or the next health care fraud like Theranos and beyond.

In general, there are a few broad categories to consider when thinking about corporate governance.

Does the Board Have All Stakeholders In Mind?

The board of directors is responsible for the big picture direction of the company. The board sets policies and oversees the company's leadership, including setting executive compensation. Shareholders may technically be the owners of the company, but the board members represent the shareholder interests on a larger scale. They articulate the corporate values through their decisions and also set objectives and goals. The board may also appoint committees to oversee work on things such as the accounting audit and compensation.

Because of the important role of board members, when considering the quality of a company's corporate governance, we evaluate the independence of the board. Having board members with other interests related to the company--such as relationships with the company or its leaders or having board members who also work for the company--creates the potential for conflict (or the appearance of conflict) when it comes to decision making. We prefer company boards to have an independent majority.

We also think it as best practice for the CEO to not also serve as the board chairman. Separating the role of CEO and chairman allows the board to focus on the goal of growing and improving the company more objectively, without too much influence falling into the hands of one person. That said, however, if a founder is an authentic genius with tremendous value-add in all areas of the business, we may be okay with that person being both chairman and CEO, as it could be a huge advantage.

For example, we're fine with Satya Nadella being chairman and CEO of Microsoft (MSFT) and Mark Zuckerberg being chairman of CEO of Meta Platforms (FB), formerly Facebook, but even though it hasn't come back to bite Tesla (TSLA) shareholders, it may have been a good idea to have separated Elon Musk's role as chairman and CEO before the fraud charges mandating the separation in 2018. Other issues could arise where outside activities could hurt investors. At one time, Jack Dorsey was both the CEO of Twitter (TWTR) and Block (SQ), formerly Square. Heading up one company is more than enough for one person, and Dorsey announced his departure from Twitter, the company he founded, in November 2021.

In the discussion of social responsibility, we also consider the importance of diversity--in backgrounds, experiences, gender, race, etc.--in the most successful companies with respect to ESG. The board of directors should demonstrate this diversity in its composition as well as encourage it throughout the company in its policies. A diverse board can surface new ideas and raise new perspectives easier than one that has too similar of backgrounds and can better anticipate potential problems from marketing to brand image and beyond.

Are Executives Being Properly Incentivized?

Senior leadership is key to the success of a company. As opposed to the board, executives from the CEO, CFO, and COO and beyond oversee the day-to-day operations of a company and enact the board's vision. Leadership is appointed by, and also reviewed by, the board, but they also have a lot of latitude in how their work is completed. As noted above, it is best if the CEO is not also chairman as there can be conflicts in how goals are set and how work is completed—and whether the company is even pursuing the "right" strategic direction.

One of the big areas of corporate governance related to leadership is executive compensation. *How* an executive is compensated can motivate them to focus on certain metrics rather than others. Many boards adopt a pay-for-performance strategy so that leadership is compensated more when the company does well--thereby tying their pay to shareholder success. It is possible, however, for the board to tie compensation to any measure they deem to be appropriate as long as it aligns with the goals the board has for the company.

However, there are a number of areas that may pose as red flags. In general, we want the executive team to be incentivized more on the basis of return on invested capital (ROIC) and economic value add (EVA), and not too much on accounting earnings per share (EPS). A focus on accounting earnings per share could lead the team to pursue aggressive buybacks at lofty prices, engage in value-destroying acquisitions, or other shenanigans to drive earnings per share higher, not the least of which is taking on too much debt. This could end badly.

Performance Share Unit Program

Operating EPS and free cash flow targets for the Performance Share Unit program are set at the beginning of each three-year performance period, taking into account the Company's financial model shared with investors, including the impact our share buyback program has on operating EPS. At the end of the three years, the score is calculated based on results against the predetermined targets, with the following weights:

Financial Metric	2012 and 2013 Weighting in Overall Score
Operating Earnings Per Share	80%
Free Cash Flow	20%

Image Source: *IBM*

However, there are a number of areas that may pose as red flags. In general, we want the executive team to be incentivized more on the basis of return on invested capital (ROIC) and economic value add (EVA), and not too much on accounting earnings per share (EPS).

IBM (IBM) is a good example of where incentives based on accounting earnings per share did more harm than good. Due arguably to their executive incentive plan that emphasized operating earnings per share more than innovation (see image above), IBM's management "fell asleep at the wheel" during the early part of last decade. Instead of keeping pace with the latest and greatest tech innovators, IBM instead depended more heavily on share buybacks to target operating earnings per share goals, instead of concentrating on tangible operating improvements to drive higher-quality ROIC. The result: IBM faltered and ended up dropping its long-held operating earnings-per-share target for 2015 of $20 per share in late 2014. The company's share buyback "buffer" had not been enough to offset underlying business weakness, and the stock suffered as a result. The company has yet to recover from its misstep in executive incentives.

Executive incentives tied to ROIC and EVA are one way that we evaluate whether management and shareholder interests are aligned properly, but we also want to make sure that the executive team has sufficient “skin in the game.” We do feel that non-founder CEOs may be a bit overpaid and perhaps are given too much compensation relative to the everyday employee at the firm, but we do think they should have a sufficient enough stake in the company such that they feel the consequences for their actions. We like to look at this not so much in terms of percentage ownership of the company as opposed to the dollar value of the CEO’s, CFO’s and COO’s as well as other top executive’s stakes in the company. We’d like the executive suite to have millions of their own dollars at risk in an ownership stake in the firm.

Aside from the big picture direction of a company, there are also policies that guide day-to-day work within a corporation that ensure everyone is working towards the same goal, with the same corporate culture in mind. While policies may differ from organization to organization, a focus on transparency helps assure investors that the company is committed to the things they say and do. For those interested in ESG, these policies may refer to things like equity, diversity, and inclusion (EDI). For companies serious about doing corporate governance right, tangible executive incentives tied to ESG considerations also matter.

Skin in the Game and Minority Shareholders

That said, we don’t want management with too much skin in the game, whereas it leads to them having too great of control over strategic decisions. For example, while some CEOs are visionaries and their majority control may be a blessing for minority shareholders, a CEO with majority ownership could send the company down the wrong strategic path.

Good corporate governance, in our view, means that all shareholders get an equal voice. If a company has dual class shares--Class A, Class B, and the like--with unequal rights (such as voting power), we think that could create a big issue for shareholders, especially if the majority shareholder(s) pursue(s) endeavors from acquisitions to capital allocation decisions and beyond that may run counter to the best interests of the firm.

According to research from the Harvard Law School Forum, approximately 7% of Russell 3000 companies have dual class structures, and more and more new issues are adopting the practice. Perhaps the most well-known companies with dual class share structures are Alphabet (GOOG) (GOOGL) and Berkshire Hathaway (BRK.A) (BRK.B). In the former, GOOGL shares get one vote, while GOOG shares have no voting rights. Class B shares at Berkshire Hathaway have 1/1,500th of the economic interest of Class A shares but 1/10,000th of the voting power.

Though we might want visionary founders to continue to have control of their companies without penalizing them for not having the corresponding economic interest and perhaps we may have no qualms with Warren Buffett heading up Berkshire Hathaway for as long as possible, dual class structures could result in entrenched management teams and poor decision making that was common following the dot com bust from self-dealings to weak accounting controls to other practices that could create problems for minority shareholders.

Protecting minority shareholders has become a top priority at the Securities and Exchange Commission (SEC) of late. In particular, the SEC has emphasized in recent bulletins that investors do not have control of Chinese companies that are listed on United States exchanges. Such companies score low when it comes to corporate governance on our rating system. Here is an excerpt from a ‘Statement on Investor Protection Related to Recent Developments in China," for example:

> Recently, the government of the People’s Republic of China provided new guidance to and placed restrictions on China-based companies raising capital offshore, including through associated offshore shell companies. These developments include government-led cybersecurity reviews of certain companies raising capital through offshore entities.
>
> This is relevant to U.S. investors. In a number of sectors in China, companies are not allowed to have foreign ownership and cannot directly list on exchanges outside of China. To raise money on such exchanges, many China-based operating companies are structured as Variable Interest Entities (VIEs). [Continued on the next page]

"Both an ESG policy and a Sustainability Report should be available and accessible on a company's website."

[Continued from the previous page] In such an arrangement, a China-based operating company typically establishes an offshore shell company in another jurisdiction, such as the Cayman Islands, to issue stock to public shareholders. That shell company enters into service and other contracts with the China-based operating company, then issues shares on a foreign exchange, like the New York Stock Exchange. While the shell company has no equity ownership in the China-based operating company, for accounting purposes the shell company is able to consolidate the operating company into its financial statements.

For U.S. investors, this arrangement creates "exposure" to the China-based operating company, though only through a series of service contracts and other contracts. To be clear, though, neither the investors in the shell company's stock, nor the offshore shell company itself, has stock ownership in the China-based operating company. I worry that average investors may not realize that they hold stock in a shell company rather than a China-based operating company.

U.S.-listed ADRs of Chinese companies from Alibaba (BABA) to Baidu (BIDU) and beyond have faced enormous selling pressure in recent months because of heightened U.S.-China tensions in the capital markets. The selling pressure reveals just how important control is to investors, as many market participants have re-set the values of Chinese companies listed on U.S. exchanges much lower largely because of what can best be described as a "lack of control" discount and intermediate-term concerns over delisting. With all this said, let's take a look at how the Valuentum ESG Scoring System addresses corporate governance.

4	**Governance**
a	Does the company have ESG policies and a Sustainability Report readily accessible on its website? -- (1-5)
	1 = No; 3 = No/Yes, Yes/No; 5 = Yes
b	Does the company separate the CEO/Chair roles? Do minority shareholders have a voice? Dual class stock? (1-5)
	1 = No; 3 = Somewhat of a voice; 5 = Yes
c	Is the executive team compensated on ROIC and ESG measures? (1-5)
	1 = No; 3 = ROIC but not ESG; 5 = ROIC and ESG
d	Bonus -- does the company warrant a positive adjustment? (+1)
	+1 = (e.g. does the company have a dedicated ESG representative, commitment by management to ESG, etc)

Image Shown: *The Valuentum Environmental, Social and Governance (ESG) Scoring System shows how "**Governance**" considerations are analyzed.*

As shown in the image above, there are four considerations that Valuentum analysts look at when considering governance as part of their ES**G** evaluation. The first consideration is with respect to ESG policies. This points to a focus on ESG as part of the corporate culture and transparency in how the company is looking to achieve these goals.

Both an ESG policy and a Sustainability Report should be available and accessible on a company's website. ESG policies tell investors where the company's focus is in the areas of the environment, social responsibility, and governance, while the Sustainability Report details the environmental performance and impact. Companies with a focus on ESG should also provide additional reporting/metrics in investor presentations and their annual reports to keep investors updated on their progress.

The second consideration relates to the voice of the shareholders. The three questions that go into this assessment are if the company has a separate CEO/Chair (to reduce conflicts of interest), if minority shareholders (those without a majority stake in the company) have a voice, and if there is dual class stock. Each of these is meant to keep the focus on the growth and improvement of the company as a whole and benefit all shareholders and stakeholders rather than just one group.

The third consideration relates to executive compensation. Good corporate governance requires leadership to be compensated on measures such as ROIC or EVA. Going a step further, Valuentum analysts also look at how compensation relates to ESG measures, and whether they are being considered in incentive structures. That's a more challenging goal to expect leadership to not only perform, but to do so with a focus on sustainability and social responsibility, but it's not out of reach.

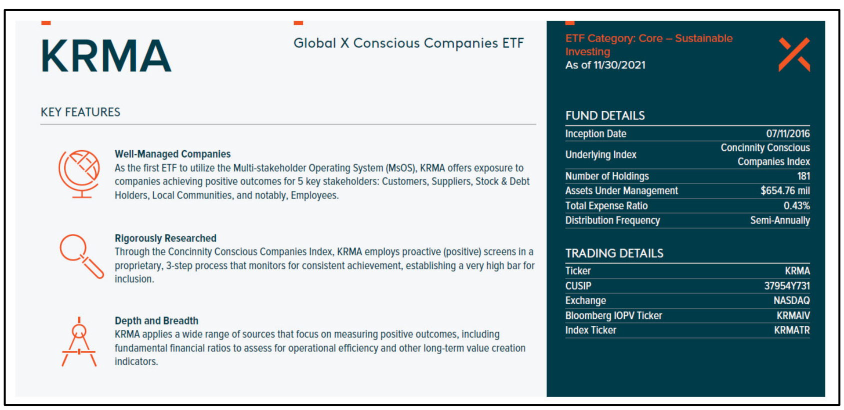
The final consideration is a catch-all intended to give companies a bonus point towards their ESG rating if they have other efforts not mentioned in the above categories.

Putting It All Together

Now that we've reviewed all the considerations the Valuentum analysts review for the Valuentum ESG rating (note we covered E and S in prior articles), you might be wondering how to interpret the final rating. Each of the big categories – Environmental, Social, and Governance – includes several different aspects, and all of that goes into a final rating out of 100 (with 100 being the best). However, it is possible for a company to score well on all the categories, some, or none. When you look at the ESG rating, you'll want to consider the overall rating, but also the individual categories that matter to you as an investor.

As with any individual data point in any of our analysis, the ESG rating is just one piece of the puzzle when it comes to stock research. A company that scores well on environmental, social, and governance considerations is better able to appeal to customers, employees, and investors, and is well-positioned to minimize its regulatory and legal risks. Depending on your goals and risk tolerances, there will always be plenty of other things to consider in your analysis such as the fair value estimate range, the Dividend Cushion ratio (income safety), the Valuentum Buying Index (VBI) rating, and beyond. Always make sure to take a look at the 16-page reports and dividend reports to accompany the ESG analysis, too.

ETF Analysis: Global X Conscious Companies ETF


KRMA

Global X Conscious Companies ETF

KEY FEATURES

Well-Managed Companies
As the first ETF to utilize the Multi-stakeholder Operating System (MsOS), KRMA offers exposure to companies achieving positive outcomes for 5 key stakeholders: Customers, Suppliers, Stock & Debt Holders, Local Communities, and notably, Employees.

Rigorously Researched
Through the Concinnity Conscious Companies Index, KRMA employs proactive (positive) screens in a proprietary, 3-step process that monitors for consistent achievement, establishing a very high bar for inclusion.

Depth and Breadth
KRMA applies a wide range of sources that focus on measuring positive outcomes, including fundamental financial ratios to assess for operational efficiency and other long-term value creation indicators.

ETF Category: Core – Sustainable Investing
As of 11/30/2021

FUND DETAILS

Inception Date	07/11/2016
Underlying Index	Concinnity Conscious Companies Index
Number of Holdings	181
Assets Under Management	$654.76 mil
Total Expense Ratio	0.43%
Distribution Frequency	Semi-Annually

TRADING DETAILS

Ticker	KRMA
CUSIP	37954Y731
Exchange	NASDAQ
Bloomberg IOPV Ticker	KRMAIV
Index Ticker	KRMATR

Image Shown: *An overview of the KRMA ETF.* ***Image Source:*** *Global X ETF Website - ETF Factsheet*

By Callum Turcan

The Global X Conscious Companies ETF (KRMA) was launched in 2016 and seeks to track the performance of the Concinnity Conscious Companies Index, before taking fees and expenses into account. Global X Management Company LLC is the investment adviser to the fund, which is a part of Mirae Asset Financial Group. Please note that Concinnity Advisors is not affiliated with Global X or Mirae Asset, and that the KRMA ETF is considered a passively managed ETF.

Several of the top weighted holdings in the KRMA ETF are companies we are enormous fans of including Apple (AAPL), Microsoft (MSFT), Alphabet Inc Class A shares (GOOGL), and Meta Platforms (FB). The KRMA ETF has a total expense ratio of 0.43% and a 30-day SEC yield of 0.90%, with the ETF paying semi-annual distributions to its investors. Some of the KRMA ETF's smaller holdings include Disney (DIS), Visa (V), Vertex Pharma (VRTX), Republic Services (RSG), PayPal (PYPL), and Johnson & Johnson (JNJ). At the end of December 2021, companies operating in the IT sector represented ~30% of the KRMA ETF's holdings followed up by the health care sector at ~14% and the consumer discretionary sector at ~12%.

Many large cap tech firms are excellent for meeting ESG investing standards, particularly because they do not have large industrial bases. One of the biggest concerns in tech, however, is that data centers are voracious consumers of energy, though to offset those concerns, tech firms can choose to supply those data centers with renewable energy generated by wind and solar farms. Purchasing credits to offset emissions from the consumption of fossil fuel-generated electricity is another option. Given the immense financial resources of large cap tech firms, they often have the ability to sign power purchase agreements ('PPAs') with renewable energy developers and/or utilities to ensure that projects like solar and wind farms can secure the financing that they need. This in turn helps the tech firms comply with ESG investing standards without needing to purchase credits. **In any event, having deep pockets will almost always make complying with ESG investing standards an easier task.**

TOP 10 HOLDINGS (%) *Holdings Subject to Change*

Apple Inc	5.65%	Nvidia Corp	0.68%
Microsoft Corp	5.40%	On Semiconductor Corp	0.64%
Alphabet Inc-cl A	3.29%	Advanced Micro Devices	0.63%
Amazon.com Inc	2.93%	Arista Networks Inc	0.60%
Meta Platforms Inc	1.01%	Pfizer Inc	0.59%

Image Shown: *An overview of the top ten holdings within the KRMA ETF at the end of November 2021.* ***Image Source:*** *Global X ETF Website - ETF Factsheet*

The Concinnity Conscious Companies Index is defined as "an equal weighted index of about 100 US Large Cap stocks that have been qualified as Multi-Stakeholder Operating System ('MsOS') proficient by the Concinnity research process for three years or more" according to the Concinnity Advisors' website, the firm behind the index. Here is how Concinnity Advisors defines the MsOS and why it is an important system for investors:

> The multi-stakeholder operating system holds the potential to make capitalism more defendable as the most viable system for increasing living standards for people everywhere. Such a claim gains validity if we view companies as a system of relationships, or economic ecosystem. When an ecosystem thrives, everything within it should benefit.
>
> When a company adopts a multi-stakeholder operating system, it has essentially adopted an attitude of caring. It cares about the communities where it operates; cares about the work environment or culture it creates for employees; cares about maintaining mutually beneficial and trusting relationships with suppliers; cares about minimizing or eliminating negative social and environmental impacts resulting from operations; cares deeply about providing quality and value to customers; cares about attracting long-term minded investors and providing optimal long-term returns for those investors.

We are highlighting the KRMA ETF as a way to gain diversified exposure to companies that adhere to sustainable business practices. In our view, large cap tech companies (especially those with nice net cash balances that generate sizable free cash flows) represent solid investment opportunities in the current environment given their immense pricing power, which can be utilized to offset headwinds arising from inflationary pressures. Rising interest rates are another concern, though we expect large cap tech companies will continue to march higher over the long haul given that their growth trajectories are underpinned by powerful secular tailwinds.

Disclosure: *Callum Turcan does not own shares in any of the securities mentioned above. Concinnity Advisors is the index provider for KRMA and is also a paid customer of Valuentum's research and analysis. Valuentum has not received any compensation in relation to this analysis of KRMA.*

ESG Newsletter Portfolio Idea Oracle Buys Cerner

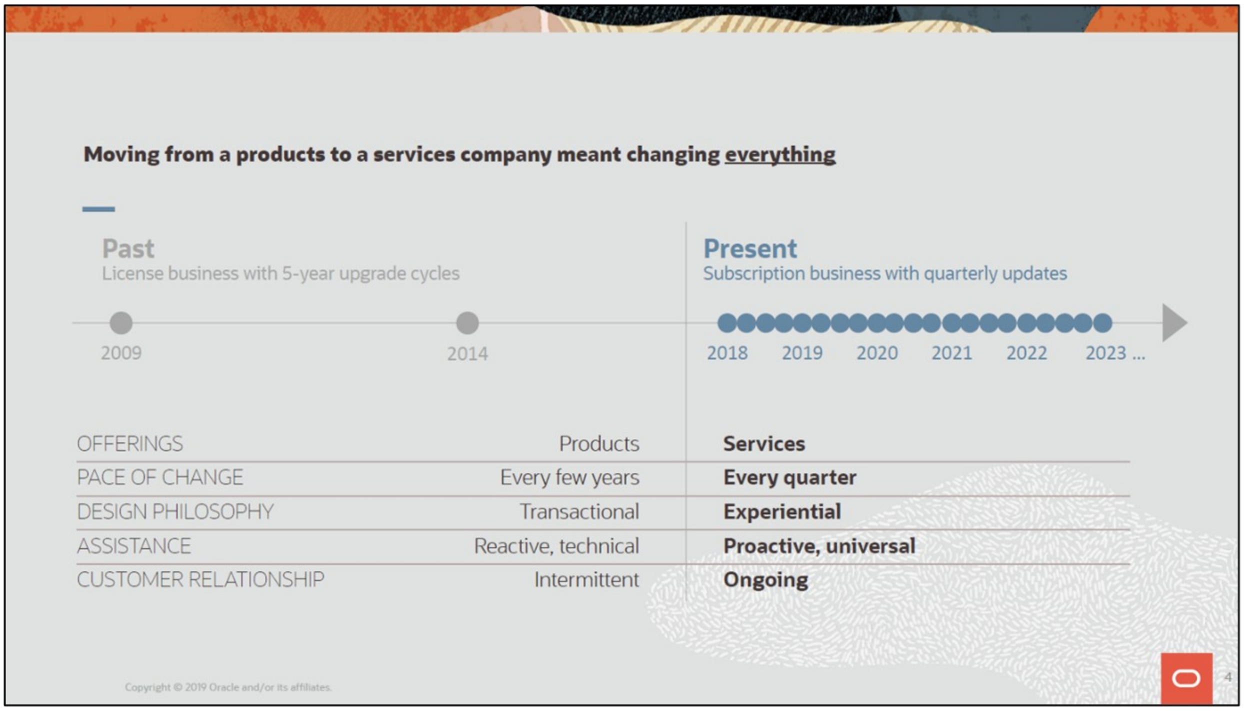


Image Source: *Oracle Corporation – September 2019 Financial Analyst Meeting Presentation*

By Callum Turcan

Oracle Corporation (ORCL) is one of our favorite dividend growth ideas that also earns high marks as it concerns ESG (environmental, social, and governance) investing standards. We use our proprietary ESG scoring matrix, which scores firms on a 1-100 scale (100 being the best), to gauge their adherence to ESG practices. **Oracle scores a nice 96 ESG rating with a strong showing across all three categories. We include shares of ORCL as an idea in our ESG Newsletter portfolio.** The high end of our fair value estimate range sits at $101 per share of Oracle, comfortably above where shares are trading at as of this writing. Shares of ORCL yield ~1.5% as of this writing.

Growing its cloud computing operations as part of its pivot away from its legacy IT offerings represents a major part of Oracle's turnaround story over the past decade. Its efforts here have started to play out quite favorably in recent fiscal quarters, as witnessed through the strong financial performance Oracle put up during its second quarter of fiscal 2022 (period ended November 30, 2021) when its GAAP revenues were up 6% year-over-year. Furthermore, management offered some promising near-term guidance during Oracle's fiscal second quarter earnings call, noting that "we expect cloud revenue will accelerate further and exit the fiscal year in the mid-20s, potentially higher," which speaks quite favorably towards the company's longer term growth outlook as well.

Cerner Deal

Shares of ORCL initially surged higher after its fiscal second quarter earnings update was published on December 9, before rumors of a major potential acquisition materialized, rumors that in this case turned out to be true. On December 20, Oracle announced that it was buying Cerner Corporation (CERN) for $95 per share through an all-cash deal with an equity value of ~$28.3 billion. Cerner offers electronic health records ('EHRs') services, analytical services for healthcare providers, and back-office services for the healthcare sector. Healthcare is a huge business that is still in the early stages of transitioning towards modern IT practices, and Oracle views the Cerner acquisition as one that will help push its cloud computing offerings into a new vertical.

However, we caution that Oracle exited November 2021 with a net debt load of ~$55.6 billion (inclusive of short-term debt). Though it had $22.8 billion in cash, cash equivalents, and current marketable securities on the books at the end of this period, which provides Oracle with ample liquidity, **the company does not have the financial firepower to make the Cerner acquisition without also making some big changes to its capital allocation priorities.**

From fiscal 2019-2021 (its fiscal year ends in May), Oracle generated ~$12.7 billion in annual free cash flow on average and exited fiscal 2021 with run-rate dividend obligations of roughly $3.1 billion. Oracle generates ample "excess" free cash flow (free cash flows less dividend obligations) which has enabled it to spend handsomely buying back its stock. From fiscal 2019-2021, Oracle spent $76.3 billion, in total, repurchasing its stock, though some of those repurchases were funded by the firm issuing debt as well. **Looking ahead, Oracle will need to slow down or suspend its share buyback program to maintain its balance sheet strength as it gets ready to acquire Cerner.**

The deal, as envisioned, is expected to close in calendar year 2022 once the necessary regulatory approvals have been received and after a majority of Cerner shareholders have tendered their stock. **Oracle intends to retain an investment grade credit rating going forward.** At the end of the September 2021, Cerner had a net debt load of $1.1 billion (inclusive of short-term debt), though that figure does not include the $0.5 billion in 'long-term investments' Cerner had on the books at the end of this period which includes some cash-like assets (such as government and corporate bonds).

Cerner's net debt load is relatively small for a firm like Oracle, though Oracle will still need to tap debt markets to fund a large chunk of the cash portion of its pending acquisition. On the flip side, **Cerner generated $0.9 billion in free cash flow in 2020** (when defining capital expenditures as 'capital purchases' and 'capitalized software development costs') and **its annual free cash flow averaged ~$0.7 billion from 2018-2020.** Adding those free cash flows to Oracle's financial performance should help improve the tech giant's cash flow profile over the long haul.

Within the press release announcing the deal, Oracle noted that the Cerner acquisition is "accretive to Oracle's earnings on a non-GAAP basis in the first full fiscal year after closing and will contribute substantially more to earnings in the second fiscal year and thereafter." Furthermore, "Cerner will be a huge additional revenue growth engine for Oracle for years to come as Oracle expands Cerner's business into many more countries throughout the world." In our view, this deal is primarily about giving Oracle's cloud computing offerings a foothold in the healthcare space.

Oracle noted how integrating its operations with Cerner's would help healthcare providers cut down on the time spent on paperwork and similar activities while improving patient outcomes. Additionally, Oracle highlighted how many of Cerner's operations already run on Oracle Database, which will make integrating Oracle's various cloud computing applications with Cerner's operations an easier task. In particularly, Oracle's digital voice assistant offering was highlighted several times in the press release as representing an effective way healthcare providers will be able to streamline their operations when accessing the EHRs of relevant patients. Security remains a key focus as well, and Oracle intends to make sure EHRs are only being accessed by the appropriate parties.

Concluding Thoughts

Adding Cerner's operations to Oracle's portfolio should support the tech giant's longer term growth trajectory. **Pushing into the healthcare sector**, which was equal to almost 20% of US GDP in 2020 according to the Centers for Medicare & Medicaid Services ('CMS'), **will open up a massive growth opportunity for Oracle to capitalize on.** Farther out, Oracle appears to see ample international upside on the healthcare IT services front as well.

However, we are somewhat worried that Oracle is stretching its balance sheet to make the deal happen. Shares of ORCL took a hit when news of the acquisition broke; however, shares of Oracle are still up ~41% over the past year as of this writing. We continue to be huge fans of Oracle as its growth outlook continues to improve, though management will need to provide greater insight on the kinds of synergies the tie-up will unlock in the coming months. Oracle should remain committed to its dividend obligations going forward given its stellar free cash flow generating abilities.

Disclosure: *Callum Turcan does not own shares in any of the securities mentioned above.*

Adobe Signals Near Term Growth Rate Slowing Down, Longer Term Outlook Still Quite Bright

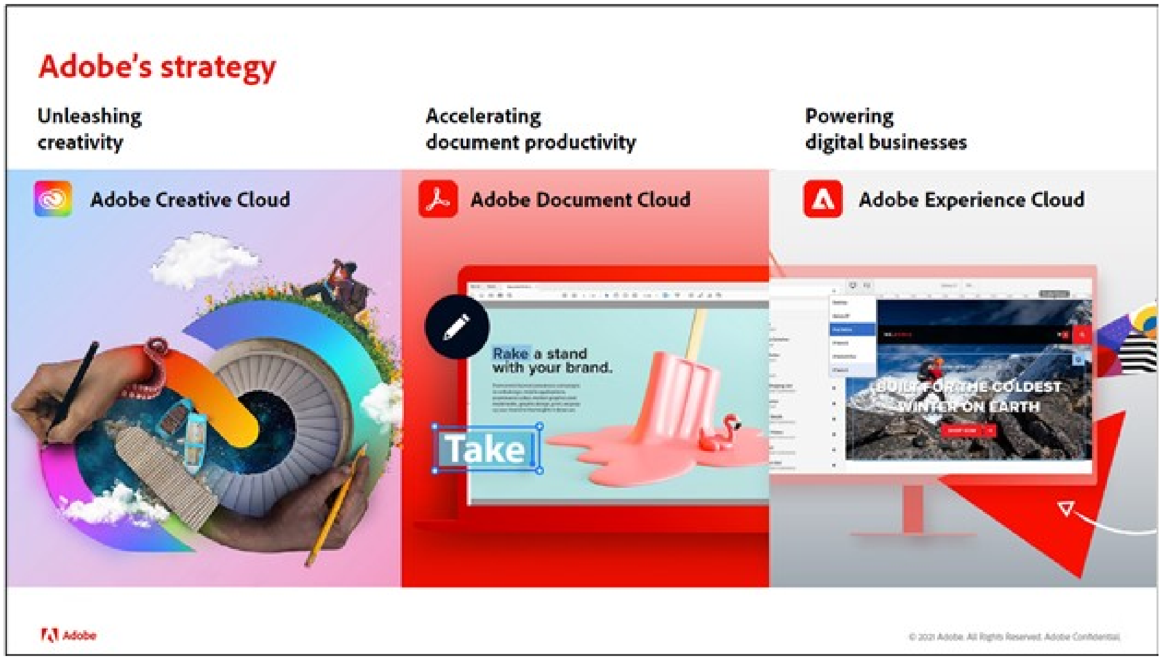


Image Source: *Adobe Inc – December 2021 Financial Analysts Meeting IR Presentation*

By Callum Turcan

On December 16, Adobe Inc (ADBE) reported fourth quarter earnings for fiscal 2021 (period ended December 3, 2021) that modestly beat consensus top- and bottom-line estimates. However, shares of ADBE plummeted in the wake of its latest earnings report as management signaled that the firm's near term growth rate would slow down in fiscal 2022 versus levels seen in fiscal 2021. Investors were apparently hoping for more, though in our view, Adobe's longer term growth outlook is still quite bright. **Our fair value estimate sits at $576 per share of Adobe.**

Earnings Update

The company's GAAP revenues were up 20% year-over-year last fiscal quarter, reaching $4.1 billion, due to strength at its subscription sales which grew by 22% year-over-year, reaching $3.8 billion. Adobe's 'Digital Media' segment (includes its Adobe Creative Cloud and Document Cloud offerings) posted 21% sales growth and its 'Digital Experience' segment (includes its Adobe Cloud Experience offerings) posted 23% sales growth during this period. Its performance got a modest boost from the closing of its ~$1.3 billion Frame.io acquisition on October 7, which provides cloud-based video collaboration offerings. This deal should support Adobe's growth trajectory going forward as Frame.io is highly complementary to its existing suite of products and services.

Adobe's GAAP operating income rose by 24% year-over-year last fiscal quarter, hitting $1.5 billion, aided by economies of scale and the high margin nature of its subscription revenues. Its remaining performance obligations ('RPO') exited the fiscal fourth quarter at $14.0 billion, up 23% year-over-year. Adobe's annualized recurring revenue ('ARR') across its core business segments continued to trend in the right direction last fiscal quarter.

In the final quarter of fiscal 2021 alone, Adobe generated $2.0 billion in free cash flow and spent $1.0 billion buying back its stock. The company does not currently pay out a common dividend and prefers to reward shareholders by investing in the business and repurchasing stock. **Adobe exited fiscal 2021 with a net cash position of $1.7 billion** with no short-term debt on the books, though the firm does have a moderate amount of operating lease liabilities on the books to be aware of. **Its balance sheet is pristine.**

Guidance and TAM Growth

Within Adobe's latest earnings press release, management noted that the firm is targeting "an estimated $205 billion addressable market" and that the firm is "well-positioned for significant growth in the years ahead with our industry-leading products and platforms." Please note that this $200+ billion addressable market opportunity is what Adobe expects its TAM will be by 2024. However, the company provided near term guidance that likely underwhelmed the more optimistic forecasts that Wall Street was banking on, which is why shares of ADBE plummeted in the wake of its fiscal fourth quarter earnings update.

The upcoming graphic down below highlights Adobe's guidance for fiscal 2022. For reference, the company generated $15.8 billion in GAAP revenue, $10.02 in GAAP diluted EPS, and $12.48 in non-GAAP adjusted diluted EPS in fiscal 2021. **Adobe is guiding to generate ~13% annual revenue growth and ~10% annual growth in its non-GAAP adjusted EPS in fiscal 2022, which represents decent growth.** Please note that during the first quarter of fiscal 2021, Adobe's reporting period included an extra week, which makes year-over-year growth forecasts for fiscal 2022 less flattering (the firm noted that the additional reporting week added ~$0.25 billion to its total revenue in fiscal 2021).

Adobe Provides Fiscal Year and First Quarter 2022 Financial Targets

Adobe's fiscal year 2022 and first quarter fiscal year 2022 targets factor in the following:

- The strengthening of the U.S. Dollar against foreign currencies; and
- The return to a 13-week first quarter and a 52-week fiscal year from fiscal 2021, which included an extra week in Q1[1,2].

The following table summarizes Adobe's fiscal year 2022 targets:

Total revenue	~$17.90 billion	
Digital Media annualized recurring revenue (ARR)	~$1.90 billion of net new ARR	
Digital Media segment revenue (Y/Y growth)	~14 %	~17 % (Adjusted[3])
Digital Experience segment revenue (Y/Y growth)	~14 %	~17 % (Adjusted[3])
Digital Experience subscription revenue (Y/Y growth)	~16 %	~19 % (Adjusted[3])
Tax rate	GAAP: ~17.5 %	Non-GAAP: ~17 %
Earnings per share[4]	GAAP: ~$10.25	Non-GAAP: ~$13.70

Image Shown: *An overview of Adobe's forecasts for fiscal 2022.* ***Image Source:*** *Adobe – Fourth Quarter of Fiscal 2021 Earnings Press Release*

Adobe's revenue growth rate is expected to slow down in fiscal 2022 versus fiscal 2021 levels after its GAAP revenues boomed higher by 23% on an annual basis last fiscal year. However, double-digit revenue and non-GAAP adjusted diluted EPS growth on an annual basis would still represent decent performance if Adobe's current forecasts are realized.

Expected growth at its total addressable market ('TAM') underpins Adobe's more promising medium-term outlook. For instance, its Document Cloud offerings should benefit from the proliferation of e-signature activities, greater document workflow and process automation needs, and rising mobile use among other things. By 2024, Adobe views its Document Cloud TAM rising to approximately $32 billion.

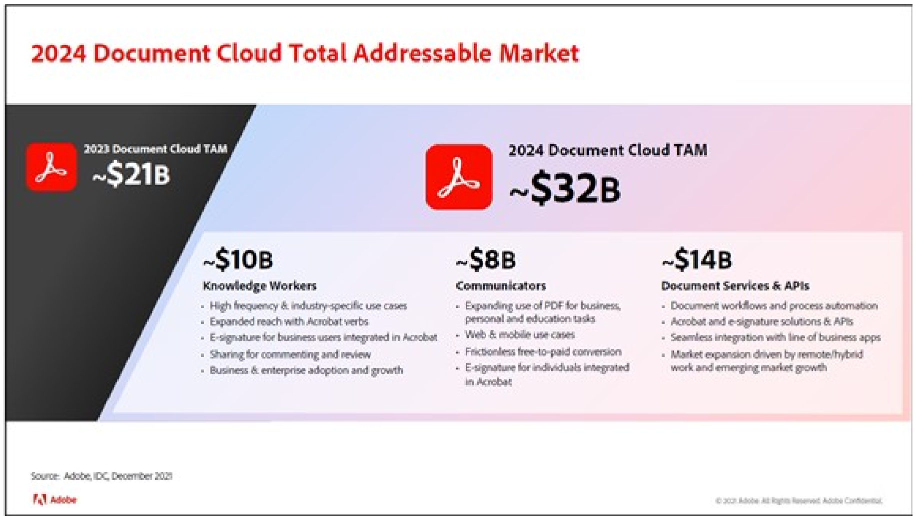


Image Shown: *Adobe expects that the TAM for its Document Cloud offerings should grow to ~$21 billion by 2023 and ~$32 billion by 2024.* ***Image Source:*** *Adobe – December 2021 Financial Analysts Meeting IR Presentation*

Pivoting to its 'Creative Cloud' offerings, Adobe expects TAM expansion to be driven by growing adoption of Adobe Stock (offers royalty-free images, photos, videos, graphics, and more), booming growth in the "creator economy" as social media enables new economic activities, adding addition capabilities to its Creative Cloud suite of products and services, and better monetizing its mobile offerings in this space. By 2024, Adobe expects its Creative Cloud TAM to grow to approximately $63 billion.

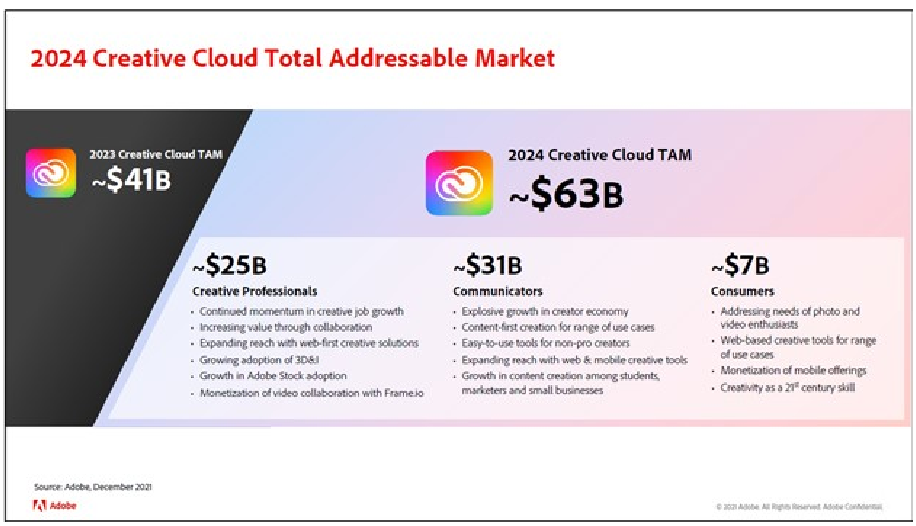


Image Shown: *Adobe expects that the TAM for its Creative Cloud offerings should grow to ~$41 billion by 2023 and ~$63 billion by 2024.* ***Image Source:*** *Adobe – December 2021 Financial Analysts Meeting IR Presentation*

Finally, Adobe expects the TAM of its Experience Cloud offerings should hit ~$110 billion by 2024. The proliferation of e-commerce, the need to maintain well-run omni-channel selling capabilities (physical and digital), and the desire of its customers to have integrated solutions when it comes to selling, marketing, and customer data retention purposes underpins Adobe's growth outlook on this front.

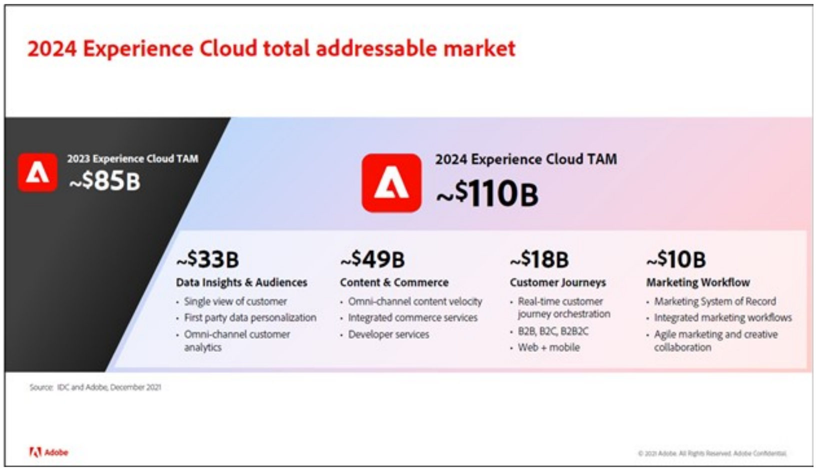


Image Shown: *Adobe expects that the TAM for its Experience Cloud offerings should grow to ~$85 billion by 2023 and ~$110 billion by 2024.* ***Image Source:*** *Adobe – December 2021 Financial Analysts Meeting IR Presentation*

Management Commentary

During Adobe's latest earnings call management commented on the firm's latest financial results and its longer term strategic goals. Management had a lot to say during the conference call, so we highlighted some noteworthy commentary worth keeping in mind (emphasis added, moderately edited):

> *"According to Adobe Analytics, **online spending during the 2021 holiday season is projected to be $200 billion, and total e-commerce spending is projected to reach $1 trillion in 2022.** It's clear that digital is a requirement to conducting business today…*
>
> ***Companies [are] automating mission-critical document processes like HR and legal to drive increased efficiency and agility.*** *At the same time, customers now expect rich personalized digital experiences that are relevant, engaging and consistent across any device. It's well documented that digital first businesses drive greater long-term growth and customer loyalty…*
>
> ***With Document Cloud, we're accelerating document productivity****, modernizing how people view, share, and engage with documents and with Experience Cloud we're powering digital businesses of all sizes, giving them everything they need to design and deliver great customer experiences. Underpinning our three clouds is the power of Adobe Sensei, our advanced AI/ML framework that enables us to deliver a steady stream of unparalleled innovation. Over the last year, we've seen the critical role that creativity has played in the world.*
>
> *Creative Cloud is empowering everyone from the high school student to the social media influencer to the most demanding creative professional to tell their story. **The Creative Cloud TAM is projected to be approximately $63 billion in 2024, $25 billion of that TAM comes from our core base of creative professionals who purchase Creative Cloud applications and services like Adobe Stock.** New growth drivers in this segment include 3D and other immersive experiences, as well as web-first collaboration tools like Frame.io, $13 billion of the TAM is coming from communicators, non-professional creators, including small businesses, students and marketers…* *[Continued on the next page]*

[Continued from the previous page] ***We're excited about the Document Cloud strategy and the large addressable market, which is projected to grow to $32 billion by 2024****, $10 billion of that TAM is coming from knowledge workers, business professionals who typically use our core Acrobat desktop subscription offerings. Growth is expected to come from the expansion of digital document use cases, e-signatures and increase collaboration capabilities…*

Our total addressable market for Adobe Experience Cloud is estimated to be $110 billion in 2024*, $33 billion of the TAM is coming from the data insights and audiences category, which includes Adobe Experience platform, real time CDP, and Adobe Analytics, including our new customer journey analytics offering." --- Ann Lewnes, EVP of Corporate Strategy and Development, and CMO of Adobe*

Powerful secular growth tailwinds support expected growth in the market opportunities Adobe is targeting. While Adobe has a lot on its plate, in our view, the firm is up to the task.

Concluding Thoughts

While Adobe's near term growth trajectory is slowing down versus levels seen in the recent past, its longer term outlook remains quite bright as the TAM of its key business segments continues to grow. Recurring revenues provide for stronger cash flow profiles given the highly visible nature of those future sales, and Adobe's capital-light business model (relatively modest capital expenditures are required to maintain a given level of revenues) better allows for the firm to generate sizable free cash flows. **We are impressed with Adobe's free cash flow generating abilities, and additionally, we are huge fans of its pristine balance sheet.** As of this writing, shares of ADBE are trading near our fair value estimate of $576 per share, above where shares of Adobe are trading at as of this writing.

Image Shown: *Shares of ADBE have been on a downward trend of late, though its growth story remains intact.*

Disclosure: *Callum Turcan does not own shares in any of the securities mentioned above.*

High Yielding Philips 66 is Making Major Investments in Green Energy Assets

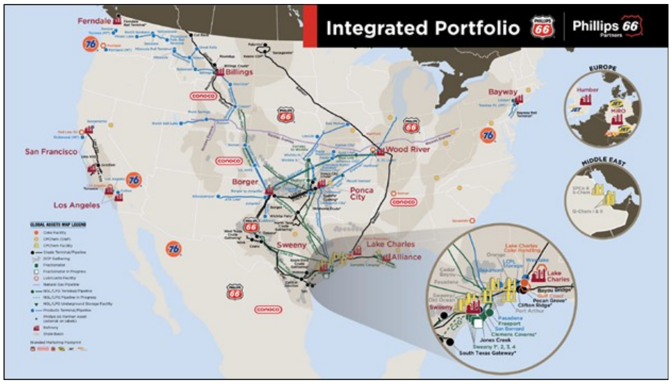


Image Shown: *An overview of Phillip 66's expansive asset base.* ***Image Source:*** *Phillips 66 – November 2021 IR Presentation*

By Callum Turcan

Demand for diesel and gasoline has largely recovered from the worst of the coronavirus ('COVID-19') pandemic, though kerosene demand (jet fuel) has a way to go given depressed levels of international travel. The refining giant Phillips 66 (PSX) took advantage of the rebound seen over the past year to pare down its debt levels on a consolidated basis. At the end of December 2020, Phillips 66 had $13.4 billion in net debt (inclusive of short-term debt) on a consolidated basis, which fell down to $12.0 billion in net debt (inclusive of short-term debt) at the end of September 2021. Going forward, Phillips 66 now wants to focus on returning cash to shareholders as communicated during a January 2022 investor conference. Shares of PSX yield a nice ~4.2% as of this writing.

Corporate Structure and Pending Changes

First, some quick housekeeping items. Note that Phillips 66 owns a large economic interest in Phillips 66 Partners LP (PSXP) which is its main midstream master limited partnership ('MLP') spinoff. The financial performance of the midstream MLP is consolidated with Phillips 66's performance. **Phillips 66 is getting ready to acquire Phillips 66 Partners through an all-stock deal that is expected to close in the first quarter of 2022**, which was announced back in October 2021. When the deal was first announced, the transaction value was pegged at ~$3.4 billion. **When the deal closes, Phillips 66 Partners will become a wholly-owned subsidiary of Phillips 66.**

Image Shown: *Phillips 66 is acquiring the remaining economic interests in Phillips 66 Partners that it does not already own through an all-stock deal that is set to close in the first quarter of 2022.* ***Image Source:*** *Phillips 66 – November 2021 IR Presentation*

Additionally, Phillips 66 owns 50% the equity of DCP Midstream which in turn owns the general partner ('GP') of the publicly traded DCP Midstream LP (DCP), another publicly traded midstream MLP (DCP Midstream also owns a sizable economic stake in the publicly traded midstream MLP). Furthermore, Phillips 66 owns half of the Chevron Phillips Chemical Company ('CPChem') joint-venture, with its partner Chevron Corporation (CVX) owning the remaining stake. **Phillips 66 is a giant in the refining, petrochemical, and midstream industries and is well-positioned to capitalize on the ongoing recovery in the global energy complex.**

Capital Allocation Priorities

Pivoting back to Phillips 66's plan to return more cash to shareholders, the firm aims to spend $1.9 billion on its capital expenditures in 2022 versus $2.9 billion in capital expenditures in 2020 and plans for $1.7 billion in adjusted capital expenditures in 2021 (its adjusted and actual capital expenditures are roughly the same). **The company is keeping a lid on its capital investments to maximize its free cash flow generating abilities.** Phillips 66 is targeting mid-cycle annual operating cash flows of ~$6.0-$7.0 billion.

Though Phillips 66 notes that its sustaining level of capital expenditures is estimated to be roughly $1.0 billion on an annual basis (both in 2022 and over the long haul), we are always cautious with that type of commentary given the eventual need to replace aging assets with new operations (especially in the rapidly changing global energy complex).

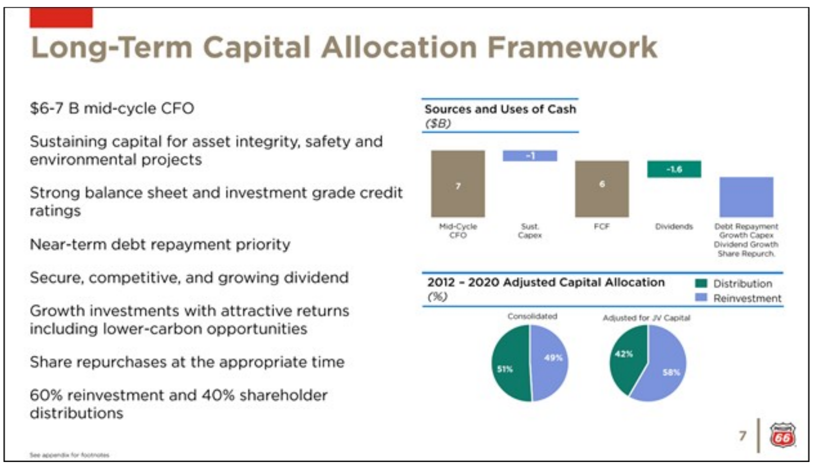


Image Shown: *Phillips 66 lays out plans for its capital allocation priorities over the long haul, with debt repayment being a near term priority as it repairs its balance sheet from the damage sustained during the worst of the COVID-19 pandemic.* ***Image Source:*** *Phillips 66 – November 2021 IR Presentation*

Management noted during the January 2022 investor event that the goal would be to bring Phillips 66's debt load down to pre-pandemic levels of roughly $12.0 billion before resuming share buybacks in earnest. That appeared to be a reference to total debt, which stood at $14.9 billion at the end of September 2021 when including short-term debt. **In the eyes of management, Phillips 66 should be able to pare down its total debt load quickly given the firm's improving outlook, relatively modest capital expenditure budget, and strong cash flow generating abilities.** That, in turn, will allow Phillips 66 to resume share repurchases this year, a move management is "anxious" to begin doing.

Our fair value estimate sits at $79 per share of Phillips 66, roughly where the company is trading at as of this writing, though the high end of our fair value estimate range stands at $99 per share. **We appreciate Phillips 66's plan to further pare down its debt load in the near term before resuming share buybacks considering shares of PSX are fairly valued as of this writing, in our view.** Phillips 66's run-rate payout obligations stood at $1.9 billion in 2020 (dividends to common shareholders plus distributions to noncontrolling interests), though its pending deal to acquire Phillips 66 Partners may change the total figure modestly. In October 2021, Phillips 66 announced a modest sequential increase in its quarterly payout of ~2%. Looking ahead, Phillips 66's annualized dividend now sits at $3.68 per share.

Green Growth

Though Phillips 66 is a powerhouse in the fossil fuel industry, management is pushing aggressively into new arenas. For instance, Phillips 66 is working towards converting its San Francisco Refinery in Rodeo, California (which is right next to San Francisco), to one that produces renewable fuels through its Rodeo Renewal project. For reference, the Rodeo Refinery has 120,000 barrels of daily crude throughput capacity (140,000 barrels of total throughput capacity per day) and the facility dates back to the 1890s (though the current refinery is much more modern). The renewable fuels project would see the refinery no longer process crude oil.

By 2024, the goal is to enable the refinery "to produce 800 million gallons per year of renewable diesel, renewable gasoline and sustainable jet fuel from used cooking oils, fats, greases and soybean oils" which includes output from a previous endeavor along with the 680 million gallons of annual renewable fuel capacity the Rodeo Renewal endeavor would bring online. **Phillips 66 is already producing a modest amount of renewable biodiesel at the Rodeo Refinery** as it recently completed a small renewable fuel conversion project at the refinery that commenced operations in July 2021.

Here we must stress that the Rodeo Refinery was recently defined as a "perennial underperformer" by Phillips 66's management team. **While this upgrade is considered a growth endeavor, it really is all about ensuring that the refinery does not become a stranded asset due to its unappealing economics.** There is a lot of existing infrastructure at the facility along with a dedicated workforce, but the asset does not have the kind of economic profile that refineries in the US Gulf Coast and Midwest regions have (refineries in these regions have ample access to cost-advantage crude oil and other supplies from major shale plays and Canada's oil sands patch). **Phillips 66 is making the right call by upgrading the Rodeo Refinery instead of simply letting the asset fade into irrelevancy, in our view.**

By utilizing existing infrastructure at the refinery, and the feedstock operations already set up via its recently completed hydrotreater conversion project, Phillips 66 aims to bring down development costs while ensuring that ongoing operating expenses will be tame. Having access to global bio-feedstocks due to the Rodeo Refinery's proximity to various Pacific Coast ports along with ample domestic bio-feedstock supplies should support the project's economics over the long haul. Additionally, please note that boosting its domestic biofuel production capacity will help Phillips 66 comply with the Renewable Fuels Standard Program that is run by the US Environmental Protection Agency ('EPA').

Management noted during the January 2022 investor presentation that Phillip 66 was considering "everything from soybean oil to corn oil, canola, oil, use cooking all animal fats, anything that that we can get our hands on across the planet to process." Furthermore, Phillips 66's management team noted that "Rodeo Renewed is the cornerstone of our renewables efforts" while the firm's recently "established an Emerging Energy group" will support its future efforts in this space. The Emerging Energy group was announced back in January 2021.

Looking ahead, its Emerging Energy group will focus on renewable fuels, batteries, carbon capture and storage, and hydrogen technologies. **By 2030, Phillips 66 aims to have this part of its business generate $2 billion in EBITDA**, and in our view, **its growing renewable fuels operations will likely be the main way the company achieves its longer term goals.** Phillips 66's renewable fuels business is currently rather small. Once the Rodeo Renewed endeavor is fully operational, its Emerging Energy group will start to become a meaningful (albeit still small) part of Phillips 66's business profile.

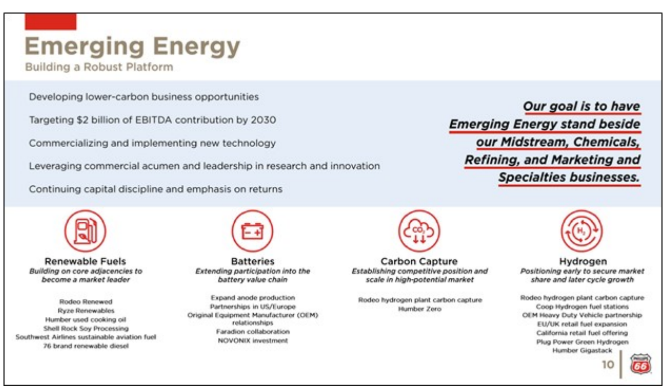


Image Shown: *An overview of the various new energy technologies Phillips 66 intends to invest in via its nascent Emerging Energy unit.* ***Image Source:*** *Phillips 66 – November 2021 IR Presentation*

Phillips 66 is more committed to green ambitions than its long and storied history may have some believe. The company publishes annual sustainability reports, focuses and reports on ESG (environmental, social, and governance) issues, and has its aforementioned renewable biofuel growth ambitions. Over time, Phillips 66 will likely continue to expand its ability to produce renewable gasoline, diesel, and jet fuel using bio-feedstocks.

We would not include a company like Phillips 66 in our ESG Newsletter portfolio given its vast exposure to fossil fuels, but we are intrigued by its pivot. The oil and gas industry represents an attractive space right now as it concerns both capital appreciation and dividend growth opportunities, but it does not meet ESG investing criteria.

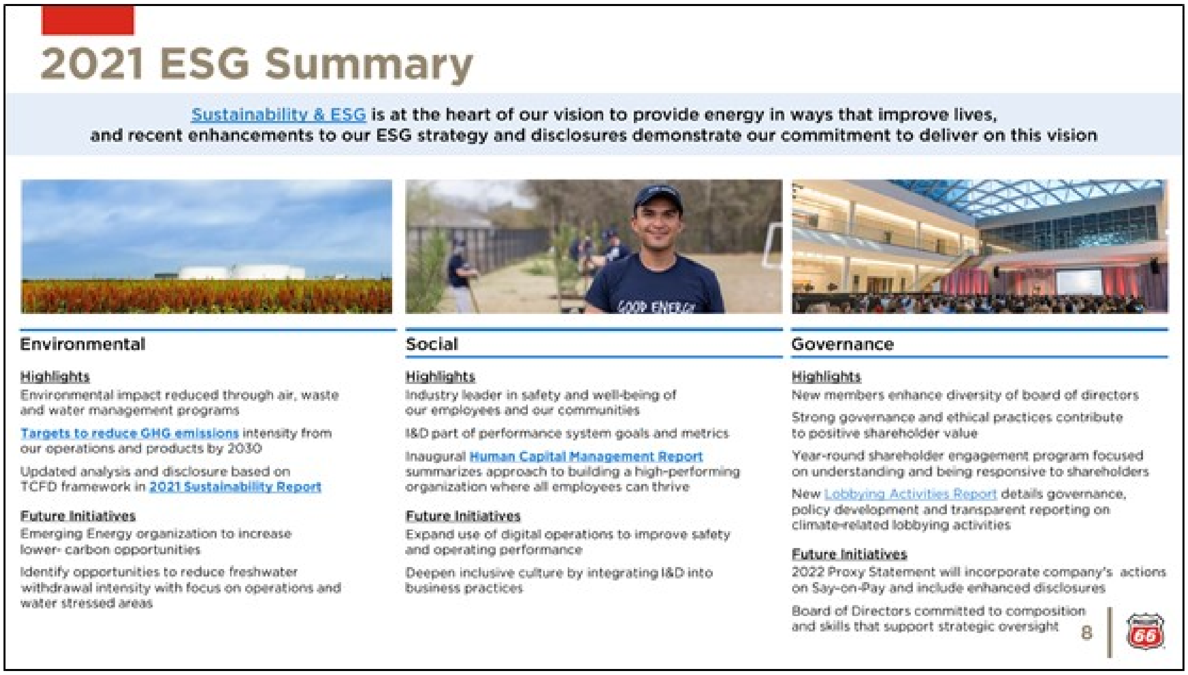


Image Shown: *Phillips 66 is adapting to the changing investing landscape by placing a greater emphasis on ESG issues and sustainability practices, as best as it can considering the firm is a juggernaut in the fossil fuels industry.* ***Image Source:*** *Phillips 66 – November 2021 IR Presentation*

Concluding Thoughts

Phillips 66 has laid out a sound long-term capital allocation strategy. **We appreciate the company's plan to continue deleveraging in the near term.** Farther out, keeping its capital expenditures contained will better enable Phillips 66 to generate substantial free cash flows throughout the business cycle. Its renewable fuels project in California is intriguing, though what matters most is the ongoing recovery in the global energy complex, particularly as it concerns refined petroleum products demand.

The recovery in the global energy complex seen over the past year is what enabled Phillips 66 to boost its dividend and reduce its net debt load in recent quarters. As the recovery is expected to continue, management had the confidence to communicate that Phillips 66 will soon resume share repurchases after bringing its debt load down further. Things are looking up for Phillips 66.

Disclosure: *Callum Turcan does not own shares in any of the securities mentioned above.*

ESG Spotlight: Advanced Micro Devices (AMD)

Our **January 2022 ESG Spotlight** is Advanced Micro Devices Inc (AMD). The company designs semiconductor components, or "chips," that are used in personal computers, workstations, data centers, and consoles with the manufacturing side of things handled by third-party foundries. **AMD has made great progress in making its own operations more sustainable and is working towards encouraging its manufacturing partners to do the same.** Its outlook is supported by powerful secular growth tailwinds as surging demand for cloud computing services is driving up demand for data centers which in turn is driving up demand for the kinds of chips designed by AMD, including central processing units ('CPUs') and graphics processing units ('GPUs').

At the end of this article, we include our ESG scoring matrix covering AMD. **The company earns an ESG score of 96 out of 100 (with 100 being the best)** given its commitment to environmentally sustainable business practices (using renewable energy, conserving water, recycling hazardous materials), its strong social performance due in part to many members of its leadership team coming from diverse backgrounds, and due to its strong governance practices, such as separating the roles of CEO and Chairman. **AMD is very transparent when it comes to its ESG reporting practices and makes ample information available on the issue.** Furthermore, AMD has laid out a roadmap of how it will continue improving its business when it comes to reducing waste and emissions, recycling hazardous materials, boosting energy efficiency, and limiting its water consumption, all of which are part of the company's way of making its business model more sustainable.

We appreciate that AMD's executive compensation take the firm's adjusted free cash flow performance into account. AMD's executive compensation also takes its non-GAAP adjusted net income and revenue performance into account. Placing a great focus on encouraging business practices that comply with high ESG standards is another core part of AMD's executive compensation.

Dr. Lisa Su has been the President and CEO of AMD since October 2014, and she has done a tremendous job growing the company into the powerhouse it is today. In fiscal 2020 (the firm's fiscal year ends in late-December), **AMD generated $0.8 billion in free cash flow**, up sharply from $0.3 billion in fiscal 2019 as the company capitalized on surging demand for its chips in the wake of the coronavirus ('COVID-19') pandemic. For reference, AMD generated negative free cash flow each year from fiscal 2012-2014, before Dr. Su took over the top job.

This strong performance continued into fiscal 2021. **AMD generated $2.5 billion in free cash flow during the first three quarters of 2021**, while spending $1.0 billion buying back its stock through its repurchase program during this period. **We are huge fans of AMD's stellar free cash flow generating abilities.** Furthermore, AMD has a pristine balance sheet. At the end of the third quarter of fiscal 2021 (period ended September 25, 2021), **AMD had a net cash position of $3.3 billion (inclusive of short-term debt).**

Advanced Micro Devices, Inc.
Condensed Consolidated Balance Sheets
(Unaudited)

	September 25, 2021	December 26, 2020
	(In millions, except par value amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,440	$ 1,595
Short-term investments	1,168	695
Accounts receivable, net	2,224	2,066
Inventories	1,902	1,399
Receivables from related parties	5	10
Prepaid expenses and other current assets	249	378
Total current assets	7,988	6,143
Property and equipment, net	717	641
Operating lease right-of-use assets	284	208
Goodwill	289	289
Investment: equity method	69	63
Deferred tax assets	1,036	1,245
Other non-current assets	770	373
Total assets	$ 11,153	$ 8,962
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 1,048	$ 468
Payables to related parties	36	78
Accrued liabilities	2,048	1,796
Short-term debt, net	312	—
Other current liabilities	120	75
Total current liabilities	3,564	2,417
Long-term debt, net	1	330
Long-term operating lease liabilities	269	201
Other long-term liabilities	183	177
Commitments and Contingencies (See Note 12)		
Stockholders' equity:		
Capital stock:		
Common stock, par value $0.01; shares authorized: 2,250; shares issued: 1,230 and 1,217; shares outstanding: 1,212 and 1,211	12	12
Additional paid-in capital	10,905	10,544
Treasury stock, at cost (shares held: 18 and 6)	(1,356)	(131)
Accumulated deficit	(2,425)	(4,605)
Accumulated other comprehensive income	—	17
Total stockholders' equity	7,136	5,837
Total liabilities and stockholders' equity	$ 11,153	$ 8,962

Image Shown: *AMD has a pristine balance sheet.* ***Image Source:*** *AMD – 10-Q SEC filing covering the third quarter of fiscal 2021*

During the first three quarters of fiscal 2021, AMD's GAAP revenues grew by 78% year-over-year and its GAAP operating income more than tripled. We like AMD's operational leverage (rising revenues can lead to immense margin expansion). In our view, AMD's growth runway is simply enormous (and set to get much longer due to a pending acquisition that we will cover in just a moment), and its outlook is quite bright, aided by its rock-solid financial position. AMD views its total addressable market ('TAM') standing at $79 billion with opportunities in the realm of data centers, PC, and gaming. The company is getting ready to launch its third generation AMD EPYC processor in the first quarter of 2022, a CPU that is geared towards data centers.

As AMD steadily improved under the leadership of Dr. Su, in large part by placing a great emphasis on gaining a sizable market position in supplying chips to the data center industry, its stock price really started to take off in 2016 and that boom has carried on to this day. This meteoric rise gave AMD the ability to make a ~$35 billion all-stock bid to take over Xilinx Inc (XLNX) in October 2020, a move that at the time was cited as growing AMD's TAM to around $110 billion. Currently, the deal is expected to close in the first quarter of 2022. Xilinx supplies programmable logic devices and invented field programmable gate arrays ('FPGAs') and adaptive system-on-chips ('SoCs'), according to the company.

Image Shown: *Combined, AMD and Xilinx are expected to have a TAM of ~$110 billion across multiple categories that are supported by secular growth tailwinds.*
Image Source: *AMD – October 2021 IR Presentation covering its the pending Xilinx acquisition*

Like AMD, Xilinx designs processors and outsources the manufacturing of those chips to third-parties. This dynamic underpins why the tie-up between AMD and Xilinx would likely yield positive results given that it is much easier to integrate the operations of two companies with very similar business models. **Within 18 months of the deal closing, AMD expects to realize $0.3 billion in operational efficiencies.**

Even if the deal does not go through as planned, AMD's growth outlook remains bright. Its development pipeline is robust as the company continues to develop smaller and smaller chips with significantly more computing power. The company's TAM should continue to steadily grow going forward in the wake of the proliferation of cloud computing services. Digital operations are the backbone of the modern economy, and AMD is well-suited to meet the world's growing computing needs by designing and supplying some of the best CPUs and GPUs out there. AMD spent over $2.0 billion on its R&D expenses during the first three quarters of fiscal 2021, up 44% year-over-year, **as innovation remains at the core of its business model.**

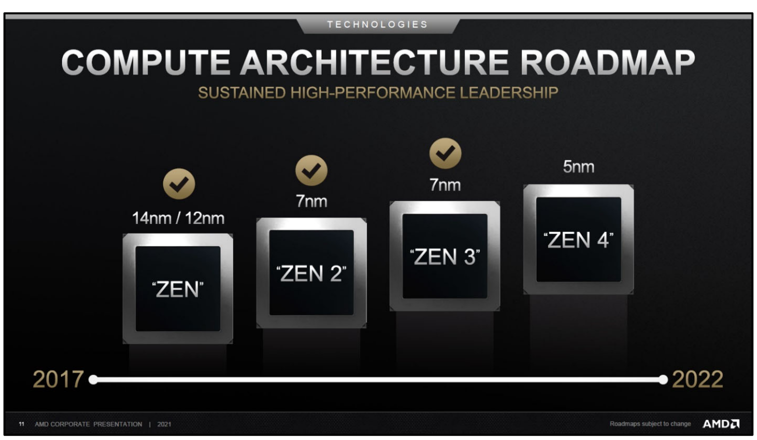


Image Shown: *In our view, AMD has a robust development pipeline.* ***Image Source:*** *AMD – 2021 IR Presentation*

AMD has made great strides in reducing its greenhouse gas emissions ('GHG') and eliminating waste in recent years. Part of these strategy involves procuring renewable energy for its owned facilities and buying renewable energy credits. As it concerns its Scope 1 emissions (direct emissions from assets owned by AMD) and Scope 2 emissions (indirect emissions associated with the purchase of electricity, steam, heat, and cooling), AMD reduced those emissions by 38% in 2020 versus 2014 levels. **AMD aims to further reduce its Scope 1 and Scope 2 emissions with the goal being to cut down its absolute GHG emissions by 50% in 2030 versus 2020 levels.** Furthermore, AMD is working on improving its Scope 3 emissions (an expansive view of emissions).

Utilizing greater amounts of renewable energy, further reducing waste generated by its operations, and boosting its energy efficiency all represent ways AMD aims to make its business more sustainable. For AMD's operations, the company reduced its energy consumption by 17% (aided by the ability for its employees to work remotely) and its waste generated by 58% (aided by improvements in its product packaging operations) in 2020 versus 2014 levels. **Bigger picture, the goal is for AMD to push its suppliers and manufacturing partners to also adopt the kinds of practices** that focus on energy efficiency, recycling hazardous materials, limiting water consumption, and reducing the amount of non-hazardous waste that ends up in landfills. Most of the emissions and waste associated with AMD's operations under a more expansive understanding of a company's footprint (Scope 3) comes from its third-party manufacturing partners, which operate foundries that produce chips designed by AMD.

In 2020, AMD's wafer manufacturing suppliers were able to recycle 80% of the hazardous waste generated during the manufacturing phase, up from 67% in 2019. AMD intends to continue pushing its suppliers to implement recycling and other waste reduction programs. The company also aims to have 100% of its manufacturing suppliers establish emissions reductions goals and to have 80% of those suppliers sourcing renewable energy by 2025. From 2014 to 2020, AMD's water use dropped by 23%. AMD has operations in place to harvest rainwater and reuse gray water at its facilities in Austin, Texas, and in Bengaluru and Hyderabad in India. The company notes that in 2020, its rainwater harvesting operations provided almost one-quarter of the annual water used across its facilities on a combined basis. AMD is pushing for its suppliers to also adopt these kinds of practices.

We are huge fans of AMD. Its financials are rock-solid, it adheres to the highest ESG investing standards, and the company has a bright growth outlook. **AMD has laid out a plan to continue making its business model more sustainable and is also focused on encouraging its manufacturing partners to do the same.** We expect that the monster rally in AMD's stock price seen in recent years still has room to run.

In the upcoming graphics on Page 22 and Page 23, we detail how we derived AMD's ESG rating of 96 out of 100 along with some brief commentary on each issue. Under Dr. Su, AMD has put up stellar operational and financial performance while continuing to make its business more sustainable. We expect that this strong performance will continue over the years to come.

Image Shown: *Shares of AMD have skyrocketed over the past five years under the leadership of Dr. Su.*

Disclosure: *Callum Turcan does not own shares in any of the securities mentioned above.*

Valuentum Environmental, Social and Governance (ESG) Scoring System

Company Name (ticker symbol):		**Advanced Micro Devices Inc (AMD)**
Overall Score =	**96**	

1	Enter 0-55 on how much of the company's revenue is derived directly or indirectly from the sale of tobacco, alcohol, weapons, gambling, crude oil or its derivatives, coal mining, coal-fired power plants, or other questionable activities that contribute heavily to environmental pollution (e.g. transportation, chemicals) or are generally associated with 'sin' stocks. 100% directly = 0 75% directly = 12 50% directly = 25 100% indirectly = 25 75% indirectly = 32 25% directly = 37 50% indirectly 37 25% indirectly = 42 0% directly, indirectly = 55	**55**

Revenue breakdown: AMD designs and sells semiconductor components that are used in PCs, workstations, data centers, and consoles.

2	**Environmental**	
a	Environmental incident track record (1-5) 1 = serious history of incidents w/ enforcement, prosecution; 5 = none	**5**
b	Energy, water intensivity (carbon emissions) -- (1-5) 1 = serious user w/ limited recycling; 5 = negligible user with renewable energy and recycling	**3**
c	Chemical/hazardous substances (1-5) 1 = serious user w/ risk of soil/water contamination; 5 = negligible user with environmental friendly raw materials	**3**
d	Bonus -- does the company warrant a positive adjustment? (+1) +1 = (e.g. 'green' product lines, low 'end-of-life' footprint, low waste packaging, etc)	**1**

Environmental Notes: AMD has made great strides reducing its GHG emissions and water use since 2014, and plans for further reductions.

3	**Social**	
a	Workers -- Risk of health and safety (1-5) 1 = workers exposed or have been exposed to serious injury; 5 = little to no risk	**5**
b	Consumers -- Risk of health and safety (1-5) 1 = consumers exposed or have been exposed to serious injury or cybersecurity/privacy issues; 5 = little to no risk, fair dealings	**3**
c	Diversity (1-5) 1 = little boardroom diversity; 5 = considerable diversity, etc	**5**
d	Bonus -- does the company warrant a positive adjustment? (+1) +1 = (e.g. community involvement, sponsorships, volunteering, flexible work environment, etc)	**1**
Social Notes	AMD's board and executive team includes many individuals from diverse backgrounds.	
4	**Governance**	
a	Does the company have ESG policies and a Sustainability Report readily accessible on its website? -- (1-5) 1 = No; 3 = No/Yes, Yes/No; 5 = Yes	**5**
b	Does the company separate the CEO/Chair roles? Do minority shareholders have a voice? Dual class stock? (1-5) 1 = No; 3 = Somewhat of a voice; 5 = Yes	**5**
c	Is the executive team compensated on ROIC and ESG measures? (1-5) 1 = No; 3 = ROIC but not ESG; 5 = ROIC and ESG	**4**
d	Bonus -- does the company warrant a positive adjustment? (+1) +1 = (e.g. does the company have a dedicated ESG representative, commitment by management to ESG, etc)	**1**
Governance Notes	AMD splits the CEO and Chairman role, and the firm places a great emphasis on transparency with its ESG reporting.	
5	**Other**	
	Negative -- does the company warrant an overall negative adjustment? (up to -5) -5 = (e.g. poor relationship with the SEC or EPA, poor transparency, outsized executive perks, other regulatory, geopolitical, or political concerns, etc)	**0**

ESG Rating Scorecards – In Alphabetical Order by Ticker

Valuentum Environmental, Social and Governance (ESG) Scoring System

Company Name (ticker symbol):		**Albemarle (ALB)**
Overall Score =	**86**	
1	Enter 0-55 on how much of the company's revenue is derived directly or indirectly from the sale of tobacco, alcohol, weapons, gambling, crude oil or its derivatives, coal mining, coal-fired power plants, or other questionable activities that contribute heavily to environmental pollution (e.g. transportation, chemicals) or are generally associated with 'sin' stocks. 100% directly = 0 75% directly = 12 50% directly = 25 100% indirectly = 25 75% indirectly = 32 25% directly = 37 50% indirectly 37 25% indirectly = 42 0% directly, indirectly = 55	**42**
Revenue breakdown:		Albemarle has a modest amount of exposure to the oil refining industry via its sales of refining catalysts.
2	**Environmental**	
a	<u>Environmental incident track record (1-5)</u> 1 = serious history of incidents w/ enforcement, prosecution; 5 = none	**5**
b	<u>Energy, water intensivity (carbon emissions) -- (1-5)</u> 1 = serious user w/ limited recycling; 5 = negligible user with renewable energy and recycling	**3**
c	<u>Chemical/hazardous substances (1-5)</u> 1 = serious user w/ risk of soil/water contamination; 5 = negligible user with environmental friendly raw materials	**3**
d	<u>Bonus -- does the company warrant a positive adjustment? (+1)</u> +1 = (e.g. 'green' product lines, low 'end-of-life' footprint, low waste packaging, etc)	**1**
Environmental Notes		Albemarle is a stellar operator, but its specialty chemicals and lithium businesses are not without their risks.

3	**Social**		
a	Workers -- Risk of health and safety (1-5) 1 = workers exposed or have been exposed to serious injury; 5 = little to no risk		**3**
b	Consumers -- Risk of health and safety (1-5) 1 = consumers exposed or have been exposed to serious injury or cybersecurity/privacy issues; 5 = little to no risk, fair dealings		**4**
c	Diversity (1-5) 1 = little boardroom diversity; 5 = considerable diversity, etc		**5**
d	Bonus -- does the company warrant a positive adjustment? (+1) +1 = (e.g. community involvement, sponsorships, volunteering, flexible work environment, etc)		**1**
Social Notes		Albemarle has a diverse management team/board and workplace accidents have been minimal in recent years.	
4	**Governance**		
a	Does the company have ESG policies and a Sustainability Report readily accessible on its website? -- (1-5) 1 = No; 3 = No/Yes, Yes/No; 5 = Yes		**5**
b	Does the company separate the CEO/Chair roles? Do minority shareholders have a voice? Dual class stock? (1-5) 1 = No; 3 = Somewhat of a voice; 5 = Yes		**3**
c	Is the executive team compensated on ROIC and ESG measures? (1-5) 1 = No; 3 = ROIC but not ESG; 5 = ROIC and ESG		**5**
d	Bonus -- does the company warrant a positive adjustment? (+1) +1 = (e.g. does the company have a dedicated ESG representative, commitment by management to ESG, etc)		**1**
Governance Notes		Albemarle's CEO is also chairman of the board. Its compensation plans factor in both ROIC and ESG metrics.	
5	**Other**		
	Negative -- does the company warrant an overall negative adjustment? (up to -5) -5 = (e.g. poor relationship with the SEC or EPA, poor transparency, outsized executive perks, other regulatory, geopolitical, or political concerns, etc)		**5**

Valuentum Environmental, Social and Governance (ESG) Scoring System		
Company Name (ticker symbol):		**Ameresco (AMRC)**
Overall Score =	**96**	
1	Enter 0-55 on how much of the company's revenue is derived directly or indirectly from the sale of tobacco, alcohol, weapons, gambling, crude oil or its derivatives, coal mining, coal-fired power plants, or other questionable activities that contribute heavily to environmental pollution (e.g. transportation, chemicals) or are generally associated with 'sin' stocks. 100% directly = 0 75% directly = 12 50% directly = 25 100% indirectly = 25 75% indirectly = 32 25% directly = 37 50% indirectly 37 25% indirectly = 42 0% directly, indirectly = 55	**55**
Revenue breakdown:		Ameresco generates revenues by helping companies and enterprises transition to "greener" operations.
2	**Environmental**	
a	<u>Environmental incident track record (1-5)</u> 1 = serious history of incidents w/ enforcement, prosecution; 5 = none	**5**
b	<u>Energy, water intensivity (carbon emissions) -- (1-5)</u> 1 = serious user w/ limited recycling; 5 = negligible user with renewable energy and recycling	**5**
c	<u>Chemical/hazardous substances (1-5)</u> 1 = serious user w/ risk of soil/water contamination; 5 = negligible user with environmental friendly raw materials	**5**
d	<u>Bonus -- does the company warrant a positive adjustment? (+1)</u> +1 = (e.g. 'green' product lines, low 'end-of-life' footprint, low waste packaging, etc)	**1**
Environmental Notes		Ameresco is helping its clients boost energy efficiency and develop green energy projects at their facilities.

3	**Social**	
a	Workers -- Risk of health and safety (1-5) 1 = workers exposed or have been exposed to serious injury; 5 = little to no risk	**5**
b	Consumers -- Risk of health and safety (1-5) 1 = consumers exposed or have been exposed to serious injury or cybersecurity/privacy issues; 5 = little to no risk, fair dealings	**5**
c	Diversity (1-5) 1 = little boardroom diversity; 5 = considerable diversity, etc	**2**
d	Bonus -- does the company warrant a positive adjustment? (+1) +1 = (e.g. community involvement, sponsorships, volunteering, flexible work environment, etc)	**1**
Social Notes	Ameresco's business does not include many social risks, though its management team/board could be more diverse.	
4	**Governance**	
a	Does the company have ESG policies and a Sustainability Report readily accessible on its website? -- (1-5) 1 = No; 3 = No/Yes, Yes/No; 5 = Yes	**5**
b	Does the company separate the CEO/Chair roles? Do minority shareholders have a voice? Dual class stock? (1-5) 1 = No; 3 = Somewhat of a voice; 5 = Yes	**3**
c	Is the executive team compensated on ROIC and ESG measures? (1-5) 1 = No; 3 = ROIC but not ESG; 5 = ROIC and ESG	**3**
d	Bonus -- does the company warrant a positive adjustment? (+1) +1 = (e.g. does the company have a dedicated ESG representative, commitment by management to ESG, etc)	**1**
Governance Notes	Ameresco's CEO is also chairman of the board. The firm is committed to ESG and sustainability issues.	
5	**Other**	
	Negative -- does the company warrant an overall negative adjustment? (up to -5) -5 = (e.g. poor relationship with the SEC or EPA, poor transparency, outsized executive perks, other regulatory, geopolitical, or political concerns, etc)	**0**

Valuentum Environmental, Social and Governance (ESG) Scoring System

Company Name (ticker symbol):		**ASML Holding NV (ASML)**
Overall Score =	**94**	

1	Enter 0-55 on how much of the company's revenue is derived directly or indirectly from the sale of tobacco, alcohol, weapons, gambling, crude oil or its derivatives, coal mining, coal-fired power plants, or other questionable activities that contribute heavily to environmental pollution (e.g. transportation, chemicals) or are generally associated with 'sin' stocks. 100% directly = 0 75% directly = 12 50% directly = 25 100% indirectly = 25 75% indirectly = 32 25% directly = 37 50% indirectly 37 25% indirectly = 42 0% directly, indirectly = 55	**55**

Revenue breakdown: ASML Holding generates revenues from the sale of photolithography systems used to produce semiconductors.

2	**Environmental**	
a	<u>Environmental incident track record (1-5)</u> 1 = serious history of incidents w/ enforcement, prosecution; 5 = none	**5**
b	<u>Energy, water intensivity (carbon emissions) -- (1-5)</u> 1 = serious user w/ limited recycling; 5 = negligible user with renewable energy and recycling	**5**
c	<u>Chemical/hazardous substances (1-5)</u> 1 = serious user w/ risk of soil/water contamination; 5 = negligible user with environmental friendly raw materials	**5**
d	<u>Bonus -- does the company warrant a positive adjustment? (+1)</u> +1 = (e.g. 'green' product lines, low 'end-of-life' footprint, low waste packaging, etc)	**1**

Environmental Notes ASML Holding aims to achieve net zero emmisions from its operations by 2025.

3	**Social**		
a	Workers -- Risk of health and safety (1-5) 1 = workers exposed or have been exposed to serious injury; 5 = little to no risk		**5**
b	Consumers -- Risk of health and safety (1-5) 1 = consumers exposed or have been exposed to serious injury or cybersecurity/privacy issues; 5 = little to no risk, fair dealings		**5**
c	Diversity (1-5) 1 = little boardroom diversity; 5 = considerable diversity, etc		**1**
d	Bonus -- does the company warrant a positive adjustment? (+1) +1 = (e.g. community involvement, sponsorships, volunteering, flexible work environment, etc)		**1**
Social Notes		ASML Holding has negigible risks as it concerns worker and consumer safety, though its diversity metrics are lacking.	
4	**Governance**		
a	Does the company have ESG policies and a Sustainability Report readily accessible on its website? -- (1-5) 1 = No; 3 = No/Yes, Yes/No; 5 = Yes		**5**
b	Does the company separate the CEO/Chair roles? Do minority shareholders have a voice? Dual class stock? (1-5) 1 = No; 3 = Somewhat of a voice; 5 = Yes		**5**
c	Is the executive team compensated on ROIC and ESG measures? (1-5) 1 = No; 3 = ROIC but not ESG; 5 = ROIC and ESG		**5**
d	Bonus -- does the company warrant a positive adjustment? (+1) +1 = (e.g. does the company have a dedicated ESG representative, commitment by management to ESG, etc)		**1**
Governance Notes		ASML Holding takes ROAIC and sustainability metrics into account when determining executive compensaiton.	
5	**Other**		
	Negative -- does the company warrant an overall negative adjustment? (up to -5) -5 = (e.g. poor relationship with the SEC or EPA, poor transparency, outsized executive perks, other regulatory, geopolitical, or political concerns, etc)		**-5**

Valuentum Environmental, Social and Governance (ESG) Scoring System

Company Name (ticker symbol):		**Meta Platforms (FB)**
Overall Score =	**86**	
1	Enter 0-55 on how much of the company's revenue is derived directly or indirectly from the sale of tobacco, alcohol, weapons, gambling, crude oil or its derivatives, coal mining, coal-fired power plants, or other questionable activities that contribute heavily to environmental pollution (e.g. transportation, chemicals) or are generally associated with 'sin' stocks. 100% directly = 0 75% directly = 12 50% directly = 25 100% indirectly = 25 75% indirectly = 32 25% directly = 37 50% indirectly 37 25% indirectly = 42 0% directly, indirectly = 55	**55**
Revenue breakdown:	Meta Platforms generates the vast majority of its revenues from digital advertising across a diverse customer base.	
2	**Environmental**	
a	Environmental incident track record (1-5) 1 = serious history of incidents w/ enforcement, prosecution; 5 = none	**5**
b	Energy, water intensity (carbon emissions) -- (1-5) 1 = serious user w/ limited recycling; 5 = negligible user with renewable energy and recycling	**5**
c	Chemical/hazardous substances (1-5) 1 = serious user w/ risk of soil/water contamination; 5 = negligible user with environmental friendly raw materials	**5**
d	Bonus -- does the company warrant a positive adjustment? (+1) +1 = (e.g. 'green' product lines, low 'end-of-life' footprint, low waste packaging, etc)	**1**
Environmental Notes	Meta Platforms achieved net zero emissions in 2021. It's working towards getting its suppliers to achieve that by 2030.	

3	**Social**	
a	Workers -- Risk of health and safety (1-5) 1 = workers exposed or have been exposed to serious injury; 5 = little to no risk	**4**
b	Consumers -- Risk of health and safety (1-5) 1 = consumers exposed or have been exposed to serious injury or cybersecurity/privacy issues; 5 = little to no risk, fair dealings	**1**
c	Diversity (1-5) 1 = little boardroom diversity; 5 = considerable diversity, etc	**3**
d	Bonus -- does the company warrant a positive adjustment? (+1) +1 = (e.g. community involvement, sponsorships, volunteering, flexible work environment, etc)	**1**
Social Notes	Meta Platforms has risks regarding the spread of certain unwanted content on its platforms. It's working on the issue.	
4	**Governance**	
a	Does the company have ESG policies and a Sustainability Report readily accessible on its website? -- (1-5) 1 = No; 3 = No/Yes, Yes/No; 5 = Yes	**5**
b	Does the company separate the CEO/Chair roles? Do minority shareholders have a voice? Dual class stock? (1-5) 1 = No; 3 = Somewhat of a voice; 5 = Yes	**1**
c	Is the executive team compensated on ROIC and ESG measures? (1-5) 1 = No; 3 = ROIC but not ESG; 5 = ROIC and ESG	**4**
d	Bonus -- does the company warrant a positive adjustment? (+1) +1 = (e.g. does the company have a dedicated ESG representative, commitment by management to ESG, etc)	**1**
Governance Notes	Meta Platforms has a dual class share structure, limiting the voice of outside shareholders.	
5	**Other**	
	Negative -- does the company warrant an overall negative adjustment? (up to -5) -5 = (e.g. poor relationship with the SEC or EPA, poor transparency, outsized executive perks, other regulatory, geopolitical, or political concerns, etc)	**-5**

Valuentum Environmental, Social and Governance (ESG) Scoring System

Company Name (ticker symbol): **NextEra Energy (NEE)**

Overall Score = **87**

1	Enter 0-55 on how much of the company's revenue is derived directly or indirectly from the sale of tobacco, alcohol, weapons, gambling, crude oil or its derivatives, coal mining, coal-fired power plants, or other questionable activities that contribute heavily to environmental pollution (e.g. transportation, chemicals) or are generally associated with 'sin' stocks. 100% directly = 0 75% directly = 12 50% directly = 25 100% indirectly = 25 75% indirectly = 32 25% directly = 37 50% indirectly 37 25% indirectly = 42 0% directly, indirectly = 55	**42**

Revenue breakdown: NextEra Energy is aggressively building out its renewable energy merchant power segment, supported by natural gas.

2	**Environmental**	
a	Environmental incident track record (1-5) 1 = serious history of incidents w/ enforcement, prosecution; 5 = none	**5**
b	Energy, water intensivity (carbon emissions) -- (1-5) 1 = serious user w/ limited recycling; 5 = negligible user with renewable energy and recycling	**4**
c	Chemical/hazardous substances (1-5) 1 = serious user w/ risk of soil/water contamination; 5 = negligible user with environmental friendly raw materials	**3**
d	Bonus -- does the company warrant a positive adjustment? (+1) +1 = (e.g. 'green' product lines, low 'end-of-life' footprint, low waste packaging, etc)	**1**

Environmental Notes NextEra Energy is focused on building solar/wind farms and battery storage assets while retiring coal-fired plants.

3	**Social**		
a	Workers -- Risk of health and safety (1-5) 1 = workers exposed or have been exposed to serious injury; 5 = little to no risk		**3**
b	Consumers -- Risk of health and safety (1-5) 1 = consumers exposed or have been exposed to serious injury or cybersecurity/privacy issues; 5 = little to no risk, fair dealings		**4**
c	Diversity (1-5) 1 = little boardroom diversity; 5 = considerable diversity, etc		**5**
d	Bonus -- does the company warrant a positive adjustment? (+1) +1 = (e.g. community involvement, sponsorships, volunteering, flexible work environment, etc)		**1**
Social Notes		NextEra Energy's executive team/board come from diverse backgrounds, and have a rock-solid operational track record.	
4	**Governance**		
a	Does the company have ESG policies and a Sustainability Report readily accessible on its website? -- (1-5) 1 = No; 3 = No/Yes, Yes/No; 5 = Yes		**5**
b	Does the company separate the CEO/Chair roles? Do minority shareholders have a voice? Dual class stock? (1-5) 1 = No; 3 = Somewhat of a voice; 5 = Yes		**3**
c	Is the executive team compensated on ROIC and ESG measures? (1-5) 1 = No; 3 = ROIC but not ESG; 5 = ROIC and ESG		**5**
d	Bonus -- does the company warrant a positive adjustment? (+1) +1 = (e.g. does the company have a dedicated ESG representative, commitment by management to ESG, etc)		**1**
Governance Notes		NextEra Energy's CEO is also the chairman. Its executive compensation considers financial and sustainability metrics.	
5	**Other**		
	Negative -- does the company warrant an overall negative adjustment? (up to -5) -5 = (e.g. poor relationship with the SEC or EPA, poor transparency, outsized executive perks, other regulatory, geopolitical, or political concerns, etc)		**5**

Valuentum Environmental, Social and Governance (ESG) Scoring System

Company Name (ticker symbol):			**Oracle Corporation (ORCL)**
Overall Score =	**96**		
1	Enter 0-55 on how much of the company's revenue is derived directly or indirectly from the sale of tobacco, alcohol, weapons, gambling, crude oil or its derivatives, coal mining, coal-fired power plants, or other questionable activities that contribute heavily to environmental pollution (e.g. transportation, chemicals) or are generally associated with 'sin' stocks. 100% directly = 0 75% directly = 12 50% directly = 25 100% indirectly = 25 75% indirectly = 32 25% directly = 37 50% indirectly 37 25% indirectly = 42 0% directly, indirectly = 55		**55**
Revenue breakdown:		Oracle generates virtually all of its revenues through the sale of software, services, and hardware IT offerings.	
2	**Environmental**		
a	Environmental incident track record (1-5) 1 = serious history of incidents w/ enforcement, prosecution; 5 = none		**5**
b	Energy, water intensivity (carbon emissions) -- (1-5) 1 = serious user w/ limited recycling; 5 = negligible user with renewable energy and recycling		**5**
c	Chemical/hazardous substances (1-5) 1 = serious user w/ risk of soil/water contamination; 5 = negligible user with environmental friendly raw materials		**5**
d	Bonus -- does the company warrant a positive adjustment? (+1) +1 = (e.g. 'green' product lines, low 'end-of-life' footprint, low waste packaging, etc)		**1**
Environmental Notes		Oracle has committed to using renewable energy to power 100% of its operations by 2025.	

3	**Social**		
a	Workers -- Risk of health and safety (1-5) 1 = workers exposed or have been exposed to serious injury; 5 = little to no risk		**5**
b	Consumers -- Risk of health and safety (1-5) 1 = consumers exposed or have been exposed to serious injury or cybersecurity/privacy issues; 5 = little to no risk, fair dealings		**3**
c	Diversity (1-5) 1 = little boardroom diversity; 5 = considerable diversity, etc		**3**
d	Bonus -- does the company warrant a positive adjustment? (+1) +1 = (e.g. community involvement, sponsorships, volunteering, flexible work environment, etc)		**1**
Social Notes		Oracle has sizable cybersecurity risks, and over one-third of its board of directors come from diverse backgrounds.	
4	**Governance**		
a	Does the company have ESG policies and a Sustainability Report readily accessible on its website? -- (1-5) 1 = No; 3 = No/Yes, Yes/No; 5 = Yes		**5**
b	Does the company separate the CEO/Chair roles? Do minority shareholders have a voice? Dual class stock? (1-5) 1 = No; 3 = Somewhat of a voice; 5 = Yes		**4**
c	Is the executive team compensated on ROIC and ESG measures? (1-5) 1 = No; 3 = ROIC but not ESG; 5 = ROIC and ESG		**3**
d	Bonus -- does the company warrant a positive adjustment? (+1) +1 = (e.g. does the company have a dedicated ESG representative, commitment by management to ESG, etc)		**1**
Governance Notes		Oracle seperates its CEO and Chair roles, though co-founder Larry Ellison is both Chairman and CTO of the firm.	
5	**Other**		
	Negative -- does the company warrant an overall negative adjustment? (up to -5) -5 = (e.g. poor relationship with the SEC or EPA, poor transparency, outsized executive perks, other regulatory, geopolitical, or political concerns, etc)		**0**

Valuentum Environmental, Social and Governance (ESG) Scoring System		
Company Name (ticker symbol):		**Republic Services (RSG)**
Overall Score =	**92**	
1	Enter 0-55 on how much of the company's revenue is derived directly or indirectly from the sale of tobacco, alcohol, weapons, gambling, crude oil or its derivatives, coal mining, coal-fired power plants, or other questionable activities that contribute heavily to environmental pollution (e.g. transportation, chemicals) or are generally associated with 'sin' stocks. 100% directly = 0 75% directly = 12 50% directly = 25 100% indirectly = 25 75% indirectly = 32 25% directly = 37 50% indirectly 37 25% indirectly = 42 0% directly, indirectly = 55	**55**
Revenue breakdown:		Republic Services generates revenues by providing waste management services in the US.
2	**Environmental**	
a	<u>Environmental incident track record (1-5)</u> 1 = serious history of incidents w/ enforcement, prosecution; 5 = none	**5**
b	<u>Energy, water intensivity (carbon emissions) -- (1-5)</u> 1 = serious user w/ limited recycling; 5 = negligible user with renewable energy and recycling	**3**
c	<u>Chemical/hazardous substances (1-5)</u> 1 = serious user w/ risk of soil/water contamination; 5 = negligible user with environmental friendly raw materials	**1**
d	<u>Bonus -- does the company warrant a positive adjustment? (+1)</u> +1 = (e.g. 'green' product lines, low 'end-of-life' footprint, low waste packaging, etc)	**1**
Environmental Notes		Republic Services has a sizable recyling operation and is investing heavily in renewable natural gas power plants.

3	**Social**	
a	Workers -- Risk of health and safety (1-5) 1 = workers exposed or have been exposed to serious injury; 5 = little to no risk	**3**
b	Consumers -- Risk of health and safety (1-5) 1 = consumers exposed or have been exposed to serious injury or cybersecurity/privacy issues; 5 = little to no risk, fair dealings	**3**
c	Diversity (1-5) 1 = little boardroom diversity; 5 = considerable diversity, etc	**5**
d	Bonus -- does the company warrant a positive adjustment? (+1) +1 = (e.g. community involvement, sponsorships, volunteering, flexible work environment, etc)	**0**
Social Notes	Republic Services' management team/board come from diverse backgrounds with great operational track records.	
4	**Governance**	
a	Does the company have ESG policies and a Sustainability Report readily accessible on its website? -- (1-5) 1 = No; 3 = No/Yes, Yes/No; 5 = Yes	**5**
b	Does the company separate the CEO/Chair roles? Do minority shareholders have a voice? Dual class stock? (1-5) 1 = No; 3 = Somewhat of a voice; 5 = Yes	**5**
c	Is the executive team compensated on ROIC and ESG measures? (1-5) 1 = No; 3 = ROIC but not ESG; 5 = ROIC and ESG	**3**
d	Bonus -- does the company warrant a positive adjustment? (+1) +1 = (e.g. does the company have a dedicated ESG representative, commitment by management to ESG, etc)	**0**
Governance Notes	Republic Services splits its CEO and chairman roles. Executive compensation factors in ROIC but not ESG metrics.	
5	**Other**	
	Negative -- does the company warrant an overall negative adjustment? (up to -5) -5 = (e.g. poor relationship with the SEC or EPA, poor transparency, outsized executive perks, other regulatory, geopolitical, or political concerns, etc)	**3**

Valuentum Environmental, Social and Governance (ESG) Scoring System

Company Name (ticker symbol):			**South32 (SOUHY)**
Overall Score =	**93**		
1	Enter 0-55 on how much of the company's revenue is derived directly or indirectly from the sale of tobacco, alcohol, weapons, gambling, crude oil or its derivatives, coal mining, coal-fired power plants, or other questionable activities that contribute heavily to environmental pollution (e.g. transportation, chemicals) or are generally associated with 'sin' stocks. 100% directly = 0 75% directly = 12 50% directly = 25 100% indirectly = 25 75% indirectly = 32 25% directly = 37 50% indirectly 37 25% indirectly = 42 0% directly, indirectly = 55		**55**
Revenue breakdown:		South32 has shed its exposure to thermal coal and is now focused on commodities that support "green energy" efforts.	
2	**Environmental**		
a	Environmental incident track record (1-5) 1 = serious history of incidents w/ enforcement, prosecution; 5 = none		**5**
b	Energy, water intensivity (carbon emissions) -- (1-5) 1 = serious user w/ limited recycling; 5 = negligible user with renewable energy and recycling		**2**
c	Chemical/hazardous substances (1-5) 1 = serious user w/ risk of soil/water contamination; 5 = negligible user with environmental friendly raw materials		**3**
d	Bonus -- does the company warrant a positive adjustment? (+1) +1 = (e.g. 'green' product lines, low 'end-of-life' footprint, low waste packaging, etc)		**0**
Environmental Notes		South32 recently acquired a large stake in a copper mine as part of its transition away from thermal coal assets.	

3	**Social**		
a	Workers -- Risk of health and safety (1-5) 1 = workers exposed or have been exposed to serious injury; 5 = little to no risk		**3**
b	Consumers -- Risk of health and safety (1-5) 1 = consumers exposed or have been exposed to serious injury or cybersecurity/privacy issues; 5 = little to no risk, fair dealings		**5**
c	Diversity (1-5) 1 = little boardroom diversity; 5 = considerable diversity, etc		**5**
d	Bonus -- does the company warrant a positive adjustment? (+1) +1 = (e.g. community involvement, sponsorships, volunteering, flexible work environment, etc)		**1**
Social Notes		South32's management team/board come from diverse backgrounds, and the miner is a top-notch operator.	
4	**Governance**		
a	Does the company have ESG policies and a Sustainability Report readily accessible on its website? -- (1-5) 1 = No; 3 = No/Yes, Yes/No; 5 = Yes		**5**
b	Does the company separate the CEO/Chair roles? Do minority shareholders have a voice? Dual class stock? (1-5) 1 = No; 3 = Somewhat of a voice; 5 = Yes		**3**
c	Is the executive team compensated on ROIC and ESG measures? (1-5) 1 = No; 3 = ROIC but not ESG; 5 = ROIC and ESG		**5**
d	Bonus -- does the company warrant a positive adjustment? (+1) +1 = (e.g. does the company have a dedicated ESG representative, commitment by management to ESG, etc)		**1**
Governance Notes		South32's CEO is also its chairman. Its executive compensation takes both sustainability and financial metrics into account.	
5	**Other**		
	Negative -- does the company warrant an overall negative adjustment? (up to -5) -5 = (e.g. poor relationship with the SEC or EPA, poor transparency, outsized executive perks, other regulatory, geopolitical, or political concerns, etc)		**0**

Valuentum Environmental, Social and Governance (ESG) Scoring System

Company Name (ticker symbol): **Taiwan Semiconductor (TSM)**

Overall Score = **94**

1	Enter 0-55 on how much of the company's revenue is derived directly or indirectly from the sale of tobacco, alcohol, weapons, gambling, crude oil or its derivatives, coal mining, coal-fired power plants, or other questionable activities that contribute heavily to environmental pollution (e.g. transportation, chemicals) or are generally associated with 'sin' stocks. 100% directly = 0 75% directly = 12 50% directly = 25 100% indirectly = 25 75% indirectly = 32 25% directly = 37 50% indirectly 37 25% indirectly = 42 0% directly, indirectly = 55	**55**

Revenue breakdown: TSMC generates virtually all of its revenues from the manufacturing of semiconductor components for its clients.

2	**Environmental**	
a	Environmental incident track record (1-5) 1 = serious history of incidents w/ enforcement, prosecution; 5 = none	**3**
b	Energy, water intensivity (carbon emissions) -- (1-5) 1 = serious user w/ limited recycling; 5 = negligible user with renewable energy and recycling	**3**
c	Chemical/hazardous substances (1-5) 1 = serious user w/ risk of soil/water contamination; 5 = negligible user with environmental friendly raw materials	**3**
d	Bonus -- does the company warrant a positive adjustment? (+1) +1 = (e.g. 'green' product lines, low 'end-of-life' footprint, low waste packaging, etc)	**0**

Environmental Notes TSMC is working towards achieving net zero emissions by 2050 and has put a plan in place to reach that goal.

3	**Social**	
a	Workers -- Risk of health and safety (1-5) 1 = workers exposed or have been exposed to serious injury; 5 = little to no risk	**5**
b	Consumers -- Risk of health and safety (1-5) 1 = consumers exposed or have been exposed to serious injury or cybersecurity/privacy issues; 5 = little to no risk, fair dealings	**5**
c	Diversity (1-5) 1 = little boardroom diversity; 5 = considerable diversity, etc	**5**
d	Bonus -- does the company warrant a positive adjustment? (+1) +1 = (e.g. community involvement, sponsorships, volunteering, flexible work environment, etc)	**1**
Social Notes	TSMC's management team and board of directors come from diverse backgrounds for a Taiwan-based firm.	
4	**Governance**	
a	Does the company have ESG policies and a Sustainability Report readily accessible on its website? -- (1-5) 1 = No; 3 = No/Yes, Yes/No; 5 = Yes	**5**
b	Does the company separate the CEO/Chair roles? Do minority shareholders have a voice? Dual class stock? (1-5) 1 = No; 3 = Somewhat of a voice; 5 = Yes	**5**
c	Is the executive team compensated on ROIC and ESG measures? (1-5) 1 = No; 3 = ROIC but not ESG; 5 = ROIC and ESG	**3**
d	Bonus -- does the company warrant a positive adjustment? (+1) +1 = (e.g. does the company have a dedicated ESG representative, commitment by management to ESG, etc)	**1**
Governance Notes	TSMC splits the CEO and Chairman role, and the firm has a webpage dedicted to ESG and sustainability.	
5	**Other**	
	Negative -- does the company warrant an overall negative adjustment? (up to -5) -5 = (e.g. poor relationship with the SEC or EPA, poor transparency, outsized executive perks, other regulatory, geopolitical, or political concerns, etc)	**0**

ESG Newsletter Portfolio

Idea	Symbol	Weighting	ESG Rating
CORE			
Clearbridge Large Cap Growth ESG ETF	LRGE	10.0%	-
YWCA Women's Empowerment ETF	WOMN	10.0%	-
NAACP Minority Empowerment ETF	NACP	10.0%	-
Vanguard ESG US Stock ETF	ESGV	5.0%	-
iShares Edge MSCI USA Leaders ETF	SUSL	5.0%	-
iShares MSCI Global Impact ETF	SDG	5.0%	-
iShares Global Clean Energy ETF	ICLN	5.0%	-
Invesco QQQ Trust ETF	QQQ	2.5%	-
Utilities Select Sector SPDR Fund ETF	XLU	2.5%	-
EQUITY			
ASML Holdings	ASML	7.5%	94
Taiwan Semiconductor Manufacturing Company	TSM	7.5%	94
Facebook, Inc.	FB	5.0%	86
Oracle Corporation	ORCL	5.0%	96
Republic Services	RSG	5.0%	92
Ameresco, Inc.	AMRC	5.0%	96
Albemarle Corporation	ALB	5.0%	86
South32	SOUHY	2.5%	93
NextEra Energy	NEE	2.5%	87
Cash*		0.0%	
		100.0%	

This is not a real money portfolio. Inception 9/15/2021. Data as of 12/15/2021.

** Reflects federal funds target rate range*

Valuentum Securities, Inc.

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