



The New Fundamentals

Behavioral data enhances both qualitative and quantitative analysis—because when it comes to ESG, actions speak louder than words.

Talk is cheap; bad investment decisions aren't. But talk—often grand and occasionally meaningless—remains the primary source of information investors use to understand corporate sustainability performance. Because this type of analysis is an emerging endeavor with few well-established “best practices,” investors have faced significant challenges in developing a rigorous, results-driven approach to better understanding key environmental, social, and governance (or “ESG”) factors. To a large extent, this is due to the fact that their assessments are typically based less on what companies practice and more on what they preach. Emerging technologies, however, present investors with new alternatives. By leveraging cutting-edge data science, “behavioral data” delivers robust and timely insights that complement and enhance traditional approaches, drive smarter decisions, and help investors gain a competitive advantage.

The Value of Behavioral Data

Because there are no “generally accepted” standards or mandatory line-item reporting requirements related to ESG information, companies can voluntarily report whatever they like (and, conversely, withhold whatever they don't). In fact, a 2013 study of highly rated sustainability reports revealed that 90 percent of known negative events went unreported by the company¹. This phenomenon is common enough that it has a name: “greenwashing.” What's more, it's often the same companies “talking green” that are also “lobbying brown” behind the scenes.²

Enter behavioral data. In the era of Big Data, today's investors have access to a massive amount of information on companies that wasn't available just a few years ago. The trick is harnessing it, structuring it, and making sense of it—an impossible task if done by hand. But that's exactly what new technologies, powered by artificial intelligence, are designed to

SOURCES OF BIG DATA

TruValue Labs' Insight360 platform culls data from more than 100,000 third-party sources, including:

- Local, national, and international news;
- Government databases, non-governmental organizations, academic publications and watchdogs;
- Trade blogs and industry publications;
- Content references by social media thought leaders.

do at scale. Where company reporting provides investors with an “inside out” perspective on ESG performance, behavioral data—from a variety of third-party sources (see sidebar)—offers a look from the “outside in.” It helps parse the difference between what companies say and what they do.

The Power of TruValue Labs

By complementing traditional approaches with advances in Big Data and artificial intelligence, asset managers can unlock the full potential of ESG. The Insight360 platform from TruValue Labs provides investors with real-time behavioral insights on how companies are managing key ESG factors. It uses machine-learning techniques to sift through millions of data points each month, delivering an objective, robust, and timely set of data and analysis. Armed with this information, an investor is better positioned to differentiate between a company that's a top performer and one that's all talk and no action.

As an enormous amount of capital has shifted toward passive, quantitative strategies in recent years, the potential applications for such an approach are obvious. Indeed, TruValue's Insight and Momentum scores (see sidebar) provide a way to quantify many factors missed by traditional quantitative analyses. Back-testing has shown that these factors are alpha-

¹ Olivier Boiral, “Sustainability Reports as Simulacra? A Counter-Account of A and A+ GRI Reports,” *Accounting, Auditing & Accountability Journal*, Vol. 26, No. 7, p. 1036-71, 2013

² Sheldon Whitehouse, “The Climate Movement Needs More Corporate Lobbyists,” *Harvard Business Review*, February 25, 2016

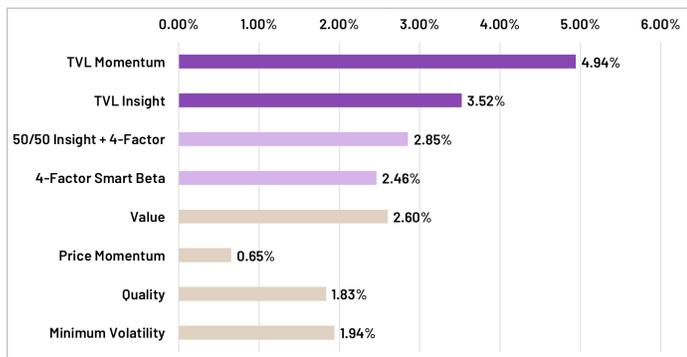


Figure 1. Annualized Alpha (10-Year Back-test)

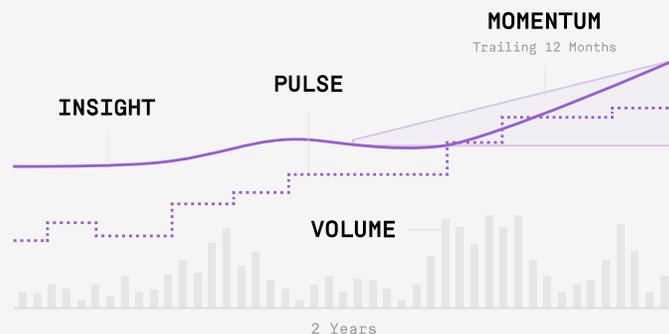
generating and uncorrelated with more traditional (i.e., Fama-French) factors, indicating they are additive to a multi-factor investment approach.^{3 4} (See Figure 1.)

However, the value of objective behavioral data is not limited to quant-based strategies. It can also supplement the activities of active managers. For fundamental, bottom-up investors, Insight360 enhances the idea generation process, supplements traditional due diligence, enables deeper understanding of the delta between intrinsic and market values, and informs portfolio construction.

Because Insight360 uncovers material opportunities in addition to risks, it’s particularly useful to fundamental investors in screening for key themes and identifying companies taking a proactive position on structural trends. Using advanced search capabilities, analysts can more quickly and easily discover investment opportunities where the intersection of favorable traditional and alternative data (e.g., a low relative valuation and strong or improving sustainability fundamentals) indicates a high-ROI opportunity for a deeper dive. Investors can then deploy behavioral data to tweak their valuation models and underlying assumptions (see sidebar).

Meanwhile, objective behavioral information—including powerful visualizations—can usefully inform how a manager constructs and maintains a portfolio or set of portfolios. Real-time signals enable more effective monitoring of the active portfolio and improve responsiveness by quickly identifying assets that demand attention or re-evaluation due to ESG-related trends (i.e., ESG Momentum) or events (i.e., Pulse).

ABOUT OUR SCORES



Insight Score is a moving average of the faster-moving, event-based Pulse score. Insight score measures a company’s longer-term ESG track record, similar to a ratings system. Scores are less sensitive to daily events and reflect the enduring performance record of a company over time.

ESG Momentum score is the relative ranking of the change in the Insight score over the past 12 months. It is a unique ESG metrics in the industry that gives investors a high-definition, high-frequency view of the trajectory of a company’s ESG performance.

Pulse is a measure of near-term ESG performance changes that highlights opportunities and controversies, enabling real-time monitoring of companies.

Volume Score is the total number of unique data points captured over a 12-month trading period.

Managers can also use short-, medium-, and long-term views to strengthen their conviction about whether exposures are consistent with risk-return (and impact) objectives. To raise the signal-to-noise ratio for mainstream investors, Insight360 leverages the efforts of the Sustainability Accounting Standards Board (SASB), which has worked with industry experts around the world to determine which ESG factors are most likely to have material financial impacts on a company’s balance sheet, its income statement, or its risk profile. Alternatively, investors with impact-oriented strategies can build custom lenses to better align “value” and “values.”

³ TruValue Labs, New Alpha from ESG2.0™ Factors – U.S. Large Cap – 10-Year Study, 2018

⁴ TruValue Labs, New Alpha from ESG2.0™ Factors – U.S. Large Cap – 5-Year Study, 2017



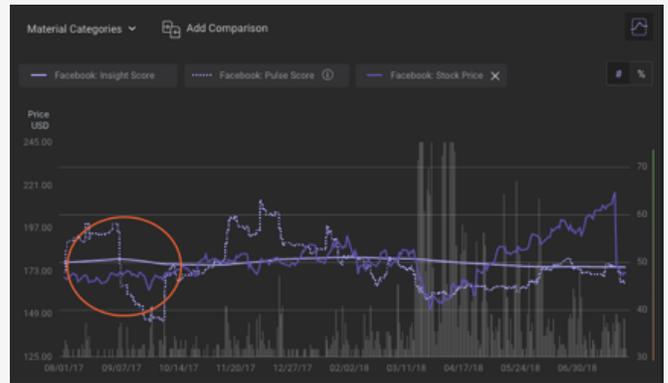
The ESG Advantage

In evaluating and selecting managers, asset owners are always looking for an edge—and today that extends to ESG integration. More and more, assets are flowing to managers who embrace data and analytics to deliver sustained performance. However, owners are taking an increasingly sophisticated approach: they understand the shortcomings of traditional, self-reported ESG data, and they’re looking for managers who aren’t simply “checking the box” by subscribing to an ESG ratings provider. They want both companies and asset managers who walk the walk.

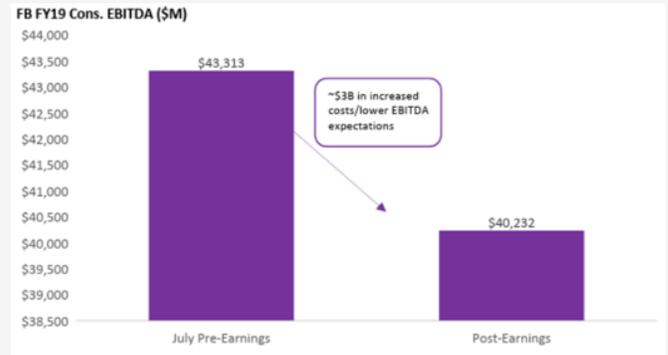
Today’s investors don’t have to wait around for self-reported ESG disclosure to improve. Emerging technologies such as those powering Insight360 enable investors to enhance their traditional approaches with cutting-edge insights, helping them stay at the forefront of a rapidly changing market. Augmenting “business as usual” with additive behavioral data isn’t just responsible investing. It’s smart investing. It’s ESG2.0™.

TRUVALUE AND INTRINSIC VALUE

Although ESG factors are typically considered to represent long-term risks and opportunities, they can also help value investors identify securities that may be over- or under-valued in the near term. For example, in the fall of 2016, the Pulse score for Facebook (NASDAQ: FB) dropped precipitously, due to increasing public and regulatory scrutiny of the company’s data privacy management—an ESG issue identified by SASB as likely to have financially material impacts on social media companies. This movement led some analysts to modify the assumptions in their valuation models.



Approximately 18 months later, the company significantly cut its earnings guidance due in large part to the ongoing effects of its own privacy policy changes and the evolving regulatory landscape around the issue.



About TruValue Labs

TruValue Labs is the first company to apply artificial intelligence (AI) to uncover timely Environmental, Social, and Governance (ESG) data on a variety of asset classes. The company’s mission is to deliver increased transparency to investment professionals by providing data and analytics that go beyond traditional fundamentals. The flagship product, Insight360™, delivers timely and investable insights by revealing intangible value and risk factors from unstructured data. Visit www.truvaluelabs.com to learn more about the SaaS and API products. Call us at 1.888.859.3690 or email info@truvaluelabs.com.

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