

# ESG

CORDA ENVIRONMENTAL  
SOCIAL GOVERNANCE

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CORDA does not offer a separate ESG specific portfolio to clients, rather an ESG analysis is one part of our greater investment philosophy and analysis used to select individual equities for use in client portfolios. Our overall goal and what has been central to our philosophy since 1999 is to find *sustainable* and *predictable* businesses. We certainly attempt to find businesses that focus on reducing negative environmental impacts, are good corporate citizens with respect to their employees, the communities in which they operate and market, and their customer base, along with holding partners within their supply chains to similar high standards. But every business we own may not meet all the characteristics of a highly rated ESG type company, but we strive to identify those that hit as many metrics as possible. It is also important to us that any company we might own has strong corporate governance. It is our belief that a company's ability to execute on ESG initiatives is a proxy for strong management, corporate culture, and long term success. That is what we mean by having an ESG type analysis as one part of the overall investment parameter.

To clarify and offer more narrative around ESG: CORDA has had a focus on sustainable investing since its inception. However, we have begun formalizing the ESG analysis process in recent years. ESG principles are used in all CORDA client portfolios that are comprised of individual equities. An ESG analysis is conducted on each business CORDA owns during our investment selection process. We consider the ESG analysis to be just one tool in our toolbelt when analyzing a business for investment, along with a valuation analysis, balance sheet analysis, revenue and earnings trajectories, assessment of management, moat analysis, etc. It is our belief that companies with stronger ESG profiles carry less incident risk than those with weaker ESG profiles. We also feel that a company's ability to consistently execute on ESG related initiatives is a sign of strong management and corporate culture. For each business we own, we produce an ESG report that can be made available to any client upon request. The ESG report details what each business is doing in each ESG category, Environment, Social, and Governance.

In the Environmental category, we include environmental initiatives taken by the company, to include when applicable: greenhouse gas emissions, energy conservation, water use, waste and recycling programs, as well as other initiatives that can be company/industry specific. We also monitor the progress each company is making towards the achievement of these initiatives. We believe companies that limit their impact on the environment carry less incident risk than those who do not. We also believe that companies with strong environmental profiles can reduce costs, specifically as they relate to energy and remediation of environmental incidents.

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In the Social category, when applicable we analyze: treatment of employees in terms of safety and labor conditions, the diversity of employees, social relations, client supplier relations, product responsibility and safety, impact on communities in which the company operates, and charitable activities. We believe companies that treat their employees with respect and care for their safety will achieve better retention and productivity out of their workforce. We believe that ensuring partners throughout the supply chain behave ethically can reduce incident risk, as can product responsibility. We believe that social relations initiatives, care for local communities, and charitable activities have the ability to strengthen company and brand reputation.

In the Governance category, we monitor the strength of a company's management and corporate policies. We prefer to see a Board of Directors largely comprised of diverse, independent directors. We prefer companies that maintain strong code of conduct and ethics policies. We prefer companies that are transparent in terms of political contributions. It is important to us that the companies we own for clients are shareholder friendly in terms of voting rights and a returning capital to shareholders through dividends and share buybacks. We feel that companies with strong corporate governance structures are less likely to experience loss through mismanagement or corporate malfeasance.

As a reminder, CORDA does not use model portfolios, especially as it relates to portfolios comprised of individual equities. As such, ESG principles and analysis are employed in crafting the list of businesses that we might own in each client portfolio that is comprised of individual equities. Again, ESG principles and analysis are just one of the tools we use to determine the merits of investment in any specific company. Also note, ESG analysis has some flaws or what some might refer to as interpretation disconnects. For example, a company such as Tesla, for instance, might score high on some ESG analytics due to its products being seemingly better for the environment, but others might score Tesla low for its corporate governance history. Therefore, ESG is NOT a magic bullet and something that grades out with high predictability. Again, CORDA emphasizes that along with fundamental and technical analysis, for instance, understanding the ESG component is just a single aspect to an overall complicated analysis to help determine what might or might not be a suitable investment.



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