NXG INVESTMENT MANAGEMENT

The Next Generation of Investment Management

A Reinvented, Dual-Track Approach to ESG Integration

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ESG is ubiquitous. RBC estimates sustainable investments account for 36% of global investment products and $1.2 trillion in dedicated sustainable equity investments as of October 2022[1]. The incredible fund flows have created a wave of greenwashing, attention from the regulators, and – justifiably – skepticism. Despite inconsistent measurements and marketing overstatements, as the chart below shows, leading ESG equities do have positive performance relative to those with poor ESG metrics. At NXG, we have developed a proprietary process that allows us to integrate ESG data to create robust, unbiased estimates to inform our investment decisions.

NXG Investment Management is dedicated to providing Next Generation investment strategies to investors seeking long-term growth in companies focused on a clean and sustainable future, as well as traditional and transformational infrastructure companies.

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NXG's Approach to ESG Integration

Importantly, **risk-adjusted total return potential is our key investment criteria**. Among the many data points we use to evaluate stocks, we believe companies with best-in-class growth, shareholder-friendly capital plans, and high employee retention are likely to outperform over the long term. These are the characteristics of many good investments, but we believe they can also lead to superior ESG performance. When appropriate, we engage with company management regarding their ESG-related practices. **At NXG, our risk-adjusted total return focused investment process naturally results in firms with superior ESG performance, not the other way around.**

Challenges

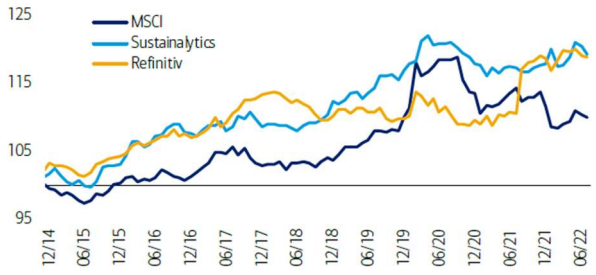
The main challenge to utilizing ESG data in the investment process is the lack of uniform, reliable reporting. Corporate sustainability reports are published by 92% of the S&P 500 companies[2], but the disclosed metrics and calculation methodologies are inconsistent. Comparisons using corporate releases range from difficult to impossible. Regulation requirements seek to make reporting of this data more reliable in the future, but we expect progress will be slow.

ESG ratings agencies have attempted to fill the void created by inconsistent corporate disclosures by an extensive accumulation of company-, academic-, government-, and media-sourced data. However, rating agencies modify this data with industry-specific weightings, normalization, and manual overrides to produce proprietary scores and ratings that can make absolute and unbiased comparisons between potential investments difficult. We believe that disciplined portfolio construction demands a more granular analysis than these ESG ratings allow.

We approach this problem by employing a dual-track ESG approach, which analyzes over 16,000 data points to provide clearer information to aid our investment decisions and augments our fundamental analysis.

Our ***Agency-Based*** track uses the granular data from a leading ESG ratings agency. We analyze the raw scores before industry weighting and normalization are applied. This information is available for and is comparable across industries without biases. Agency scores can also be updated for changes in third-party sourced data immediately without needing to wait for a new company disclosure.

Top ESG Firms Outperform[3]



[1] RBC, "ESG Stat Pack: Mid October 2022 Edition". 10/17/2022

[2] Data as of 2020. BofA, "ESG Matters. Follow the Numbers, not the Naysayers". 9/19/2022

[3] Top quintile of companies by ESG score relative to bottom quintile 12/31/2014 to 7/31/2022. BofA, "ESG Matters. Follow the Numbers, not the Naysayers". 9/19/2022

Our ***Disclosure-Based*** track uses 19 fundamental data points that are provided by the companies. While these data points are becoming more prevalent, approximately 25% of the metrics are not disclosed[4]. We use a proprietary method to provide estimated values for names in our investable universe without published data. We use all information publicly available for a company's specific sector and region peers and gradually expand the parameters until a sufficient estimate is achieved. This process allows us to establish a complete data set without bias or manual overrides.

Combining the two tracks gives us a comprehensive data set to compare companies and identify opportunities that that we believe may not be properly reflected by the ESG rating agencies. We also engage management teams to encourage them to improve their disclosures and reporting of ESG data points. In doing so, we expect that over time our ability to more accurately characterize ESG-related risks and opportunities will improve and further enhance portfolio performance.

Summary

While risk-adjusted total return potential is our key investment criteria, we also believe that integrating ESG factors can have a positive impact on investment performance. However, utilizing traditional sources for investment decisions is limited by availability and subjectivity. NXG has created a robust ESG process that we believe provides a more exhaustive data set for unbiased company comparisons. This is used to improve our analysis of high total return opportunities and enhance our engagement with management teams on critical ESG issues.

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[4] NXG Investment Management analysis.