

# Q12022 ESG LARGE VALUE STRATEGY UPDATE

By Kirk Fox

The ESG Large Value Strategy outperformed its benchmark, the Russell 1000 Value Index for the first quarter of 2022. Our process of focusing on high quality, superior management-led companies fared well. It was a volatile and disruptive quarter where Covid 19 peaked and the Russian invasion of Ukraine put additional pressure on a global economy trying to slow inflation. These actions are having a profound impact on the market.

Stocks in the portfolio that outperformed during the quarter included Chevron (CVX), Berkshire Hathaway (BRK.B) and Exelon (EXC). Chevron benefited from higher oil and gas prices as demand outpaced supply, driven by additional pressure coming from the Russian invasion of Ukraine. Both Berkshire, an energy, industrial and insurance company, and Exelon, a utility company, benefited from their defensive characteristics as well as overall demand for their products.

Stocks that detracted from performance during the quarter include Pfizer (PFE), Walt Disney (DIS) and Charles River Labs (CRL). Pfizer traded down with the market as Covid peaked, Walt Disney suffered as investors became concerned about their streaming services, and Charles River Labs traded down as investors became concerned about the ability of biotech companies (significant customers) to fund their spending on new drugs.

During the first quarter, there was little activity in the portfolio, three trades and two spinoffs to be exact. We added to our position in EOG Resources (EOG) and sold our positions in Starbucks (SBUX) and ZimVie (ZIMV), a spinoff from Zimmer Biomet (ZBH). We also received a spinoff from Exelon, Constellation Energy Corporation (CEG).

We continue to be strong believers in the energy transition as we move from fossil fuel-based energy towards renewables, such as wind and solar. The road to this transition will take time, perhaps longer than many are forecasting. During this transition, natural gas will be a bridge from traditional fossil fuels to renewables. This was one of the reasons we added to our position in EOG. EOG has world-class, low-cost assets in oil and natural gas. With the unfolding events in Russia and Ukraine, the world has quickly become undersupplied. In Europe, prices are five to ten times greater for natural gas than in the United States. Given this unfolding paradigm which could take years to reconcile, we doubled our position in EOG. We are particularly excited about their natural gas assets and their ability to be a supplier for Liquefied Natural Gas (LNG) export.

We sold our remaining SBUX position during the quarter. We sold half our position during the 3<sup>rd</sup> quarter of 2021, given our concerns about the company's growth prospects in China

and the recent discontent in the company's workforce. During Q12022, we became concerned about the purchasing power of the US consumer, with tightening financial conditions and inflation, so we sold our remaining shares. We welcome the return of Founder and former CEO, Howard Schultz, to the helm, and will monitor the situation as we may become shareholders again in the future.

Additionally, Zimmer Biomet Holdings (ZBH) spun out a small cap holding, ZIMV. We sold the position due to its small capitalization.

## ESG Large Value Strategy Largest Contributors and Detractors - Q1 2022

### 5 Best - Absolute Return

Ticker	Company	Average Weight		Contribution	
CVX	Chevron Corporation	3.11	%	1.06	bps
BRK.B	Berkshire Hathaway Inc. Cl B	4.40	%	0.75	bps
EXC	Exelon Corporation	3.29	%	0.47	bps
PGR	Progressive Corporation	4.39	%	0.46	bps
PSX	Phillips 66	2.66	%	0.42	bps
<b>5 Best Total</b>		<b>17.85</b>		<b>3.16</b>	<b>bps</b>

### 5 Worst - Absolute Return

Ticker	Company	Average Weight		Contribution	
PFE	Pfizer Inc.	4.18	%	-0.51	bps
DIS	Walt Disney Company	3.66	%	-0.47	bps
CRL	Charles River Laboratories Int'l	1.46	%	-0.45	bps
TMO	Thermo Fisher Scientific Inc.	3.50	%	-0.45	bps
PNC	PNC Financial Services	5.69	%	-0.43	bps
<b>5 Worst Total</b>		<b>18.49</b>		<b>-2.31</b>	<b>bps</b>

Disclosures:

Reader should not assume that investments in the securities identified were or will be profitable. Timing differences of purchases and sales may have a modest impact on the actual contribution numbers presented. The holdings identified do not represent all of the securities purchased, sold, or recommended. The calculation's methodology along with details on all holding's contribution to the overall account's performance during the measurement period are available upon request. Past performance does not guarantee future results.