# 3 HIDDEN GEM ESG ETFs

By Lara Crigger | June 1, 2020

Environmental, social and governance (ESG) ETFs are hot nowadays, both with investors and with issuers. There are now over 100 products on the market, which have collected some $31.76 billion in investment assets—overtaking assets invested in traditional energy ETFs for the first time.

But not every ESG ETF is—or even can be—a billion-dollar baby, and increasingly, the success of an ESG ETF comes down to the size of the issuer whose name appears on the label. iShares alone has seen $11.1 billion of the $14 billion in new net flows entering ESG ETFs year-to-date. (Read: "Demand Hot For iShares ESG Funds.")

As a result, many differentiated, thoughtfully constructed ESG funds have failed to attract attention from investors, in part because their issuers lack BlackRock's marketing might or pool of BYOA cash. But that doesn't mean they aren't good opportunities.

We sorted through the ESG ETFs with fewer than $100 million in assets under management as of May 26, 2020, and pulled out some of our favorite hidden ESG gems.

## DIVEST FROM AUTHORITARIANISM WITH FRDM

Emerging markets offer investors growth potential and diversification, but also an ethical quandary: How do you invest in developing economies without also funding authoritarian regimes?

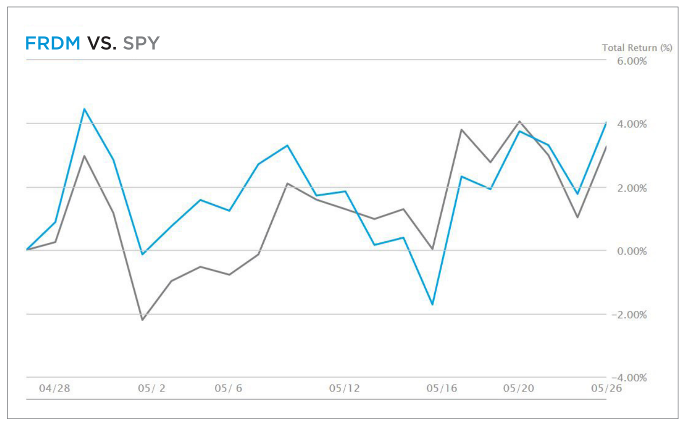
The vast majority of emerging market ETFs continue to invest significant amounts of cash into the same problematic countries—China, Russia, Saudi Arabia, Brazil and others—even as these countries crack down on their citizens' freedoms. The Vanguard FTSE Emerging Markets ETF (VWO), for example, invests 54% of its portfolio in China, Russia, Saudi Arabia and Brazil, while the iShares Core MSCI Emerging Markets ETF (IEMG) invests 47%.

But it doesn't have to be that way. The Freedom 100 Emerging Market ETF (FRDM) offers an alternative approach that's unique among emerging market ETFs.

FRDM weights countries by their freedom levels, a nebulous-sounding concept that actually encompasses 79 separate metrics, touching on everything from a country's capital market structure and freedoms of its press to the extent of human trafficking within the country's borders. The top 10 freest countries are selected, and the top 10 largest, non-state-owned equities from those countries are included in the fund's index.

As a result, FRDM's portfolio has no exposure to China, Russia, Saudi Arabia, Brazil and other problematic countries, instead weighting heavily to Taiwan (24%) and South Korea (21%). Regionally, these countries' economies are tied to China's while still remaining distinct, thus providing FRDM with a slight cushion when Chinese stocks stumble.

For example, FRDM has outperformed VWO and IEMG over the past month by more than a percentage point, rising 3.6% compared to VWO's 2.4% and IEMG's 2.3%:




*Source: ETF.com. Data as of 5/28/20*

We'd be remiss if we didn't also point out FRDM won our award for the best new international ETF of 2019.

## WORRIED ABOUT GREENWASHING? TRY CHGX

One of ESG ETFs' most well-deserved criticisms, especially the broad market funds, is the issue of "greenwashing," or a seemingly lackadaisical approach to ensuring that the stocks in the portfolio actually adhere to the principles the ETFs purport to follow.

For example, many issuers have language in their funds' prospectuses about not investing in companies experiencing "severe business controversies," only to then include companies like Facebook (FB) or Amazon (AMZN) in their portfolios. (Facebook has blundered its way through privacy scandal after privacy scandal, while Amazon's record on labor rights is atrocious.)

The Change Finance U.S. Large Cap Fossil Fuel Free ETF (CHGX) isn't one of those funds. It's probably one of, if not the, most stringent ESG ETFs left on the market—an ETF made by true ESG believers, for true ESG believers.

CHGX is one of the few ESG U.S. equity ETFs where you won't find Tesla (TSLA), for example, or Facebook, Amazon, Exxon (XOM), McDonalds (MCD) or Uber (UBER)—or any other company that has had significant labor, privacy or environmental controversies in its recent past.

That's because, unlike some ESG ETFs that try to simply limit, rather than eliminate, their exposure to certain objectionable themes, CHGX puts its money where its proverbial mouth is and divests entirely from problematic stocks and sectors.

Take its approach to fossil fuels. Not only does CHGX exclude oil and gas producers—as do many other ESG ETFs—but it also excludes coal miners, oil and gas refiners, and processors and utilities that burn fossil fuels. Compare that to the SPDR S&P 500 Fossil Fuel Reserves Free ETF (SPYX), which only excludes companies that have fossil fuel reserves on hand; or the ProShares S&P 500 Ex-Energy ETF (SPXE), which cuts out the entire energy sector but leaves in fossil-fuel-consuming utilities (and everything else).

CHGX does tremendous legwork to ensure it isn't investing in companies whose business practices it defines as objectionable, without wildly impacting the overall sector breakdown of its portfolio. For example, sectorwise, the fund stays surprisingly close to the SPDR S&P 500 ETF Trust (SPY), for example:

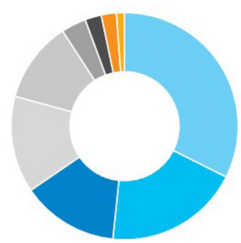
**SPY** SPDR S&P 500 ETF Trust

Top 10 Sectors

| | |
|---|---|
| Technology | 30.76% |
| Healthcare | 15.22% |
| Financials | 13.33% |
| Consumer Cyclicals | 12.78% |
| Industrials | 9.19% |
| Consumer Non-Cyclicals | 7.70% |
| Utilities | 3.50% |
| Energy | 2.64% |
| Basic Materials | 2.29% |
| Telecommunications Services | 2.24% |
| Total Top 10 Weighting | 99.66% |

**CHGX** Change Finance U.S. Large Cap

Top 10 Sectors



| | |
|---|---|
| Technology | 31.75% |
| Healthcare | 18.87% |
| Financials | 13.52% |
| Consumer Cyclicals | 13.52% |
| Industrials | 11.33% |
| Consumer Non-Cyclicals | 3.48% |
| Basic Materials | 2.29% |
| Telecommunications Services | 2.11% |
| Utilities | 1.11% |
| Total Top 10 Weighting | 97.99% |

*Source: ETF.com. Data as of 5/28/20*

It's not an exact match, for sure. But with as many exclusions as CHGX makes, you'd expect its sector lineup to be more divergent than the broader market than it actually is, making CHGX a potential ESG "replacement" option for U.S. large cap exposure.

## FOR TRULY UNIQUE FIXED INCOME DIVERSIFICATION: SPSK

Religious-based ETFs are not new, but until recently, most iterations on the theme have been Christian in nature.

Over the past few months, however, several Islam-based ETFs have launched, including the Wahed FTSE USA Shariah ETF (HLAL), the SP Funds S&P 500 Sharia Industry Exclusions ETF (SPUS) and the SP Funds Dow Jones Global Sukuk ETF (SPSK).

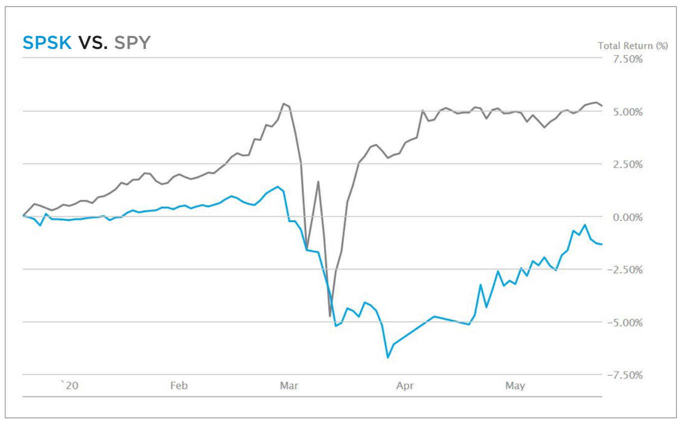
SPSK in particular is striking because it's a fixed income fund, and that may seem a contradiction in terms, as Shariah (the religious law underpinning Islam) prohibits the collection of interest on debt. As a result, Muslims aren't allowed to invest in the vast majority of bonds—which are debt instruments that make regular interest payments to their holders.

SPSK meets this challenge by instead investing in sukuks, which are Shariah-compliant financial certificates that grant holders partial ownership in an underlying asset.

Like bonds, sukuks still make regular payments to investors, but those payments aren't interest-based. They derive from the earnings the underlying asset generates—essentially, making sukuks profit-sharing arrangements.

Sukuks are a mainstay of Islamic finance, but they can be difficult for U.S.-based investors to access, as few (if any) Western-based fixed income ETFs currently offer exposure to them and individual sukuks typically trade in over-the-counter transactions. So SPSK really is offering first-of-its-kind exposure to the market.

Plus, with performance that tends to look nothing like that of the bond market and exposure to Middle East and North African countries not typically covered by bond indexes, SPSK also offers real diversification to a fixed income portfolio—something that earned it the ETF.com award for the best new international fixed income ETF of 2019.




*Source: ETF.com. Data as of 5/28/20*

**Investing involves Risk. Principal loss is possible. The Fund may trade at a premium or discount to Net Asset Value (NAV). Shares of any ETF are bought and sold at market price (not at NAV) and are not individually redeemed from the Fund. Brokerage commissions will reduce returns. The performance of the funds may diverge from that of the index. Because the funds may employ a representative sampling strategy and may also invest in securities that are not included in the index, the funds may experience tracking error to a greater extent than funds that seek to replicate an index. The funds are not actively managed and may be affected by a general decline in market segments related to the index. Investments in Real Estate Investment Trusts (REITs) involve additional risks such as declines in the value of real estate and increased susceptibility to adverse economic or regulatory developments. The social, governance, and/or environmental policy of the Fund could cause it to make or avoid investment that could result in the portfolio underperforming similar funds that do not have such policies. The Fund is a recently organized, diversified management investment company with no operating history. As a result, prospective investors have no track record on which to base their investment decisions.**

The Change Finance U.S. Large Cap Fossil Fuel Free ETF is distributed by Quasar Distributors, LLC.

*The fund's investment objectives, risks, charges and expenses must be carefully considered before investing. The prospectus contains this and other important information about the investment company. It may obtained by calling 1-303-339-0524 or emailing info@change-finance.com. Read it carefully before investing.*

| TOP 10 HOLDINGS | | AS OF 5/31/20 |
|---|---|---|
| PERCENTAGE OF NET ASSETS | NAME | IDENTIFIER |
| 1.70% | TWILIO INC | TWLO |
| 1.57% | DOCUSIGN INC | DOCU |
| 1.48% | OKTA INC | OKTA |
| 1.39% | PAYPAL HLDGS INC | PYPL |
| 1.39% | CITRIX SYSTEMS INC | CTXS |
| 1.30% | SNAP INC | SNAP |
| 1.27% | EBAY INC | EBAY |
| 1.27% | SYNOPSYS INC | SNPS |
| 1.27% | NEWMONT CORP | NEM |
| 1.26% | CHIPOTLE MEX GRL INC | CMG |

Fund holdings and sector allocations are subject to change at any time and are not recommendations to buy or sell any security. Current and future portfolio holdings are subject to risk. References to other funds should not be interpreted as an offer of these securities.

The Change Finance U.S. Large Cap Fossil Fuel Free ETF (the "Fund") seeks to track the performance, before fees and expenses, of the Change Finance Diversified Impact U.S. Large Cap Fossil Fuel Free Index (the "Index"). Gross expense ratio: 0.49%.

The SPDR® S&P® 500 Fossil Fuel Reserves Free ETF (SPYX) seeks to provide investment results that, before fees and expenses, correspond generally to the total return performance of the S&P® 500 Fossil Fuel Free Index. Gross Expense Ratio: 0.25%. SPYX is subject to the following risks: No fossil fuel reserve ownership may have an adverse effect on a company's profitability and, in turn, the returns of the fund. Concentrated investments in a particular industry or sector may be more vulnerable to adverse changes in that industry or sector. Equity securities may fluctuate in value in response to the activities of individual companies and general market and economic conditions. Passively managed funds hold a range of securities that, in the aggregate, approximates the full Index in terms of key risk factors and other characteristics. This may cause the fund to experience tracking errors relative to performance of the index. ETFs trade like stocks, are subject to investment risk, fluctuate in market value and may trade at prices above or below the ETFs net asset value. Brokerage commissions and ETF expenses will reduce returns.

ProShares S&P 500 Ex-Energy ETF (SPXE) seeks investment results, before fees and expenses, that track the performance of the S&P 500 Ex-Energy Index. Gross expense ratio: 0.27%. SPXE is subject to the following risks: This ProShares ETF is diversified and entails certain risks, including imperfect benchmark correlation and market price variance, that may decrease performance. This fund is exposed to the stocks of large cap companies, which tend to go through cycles of outperformance or underperformance lasting up to several years relative to other segments of the stock market. As a result, large cap returns may trail the returns of the overall stock market. Please see the summary and full prospectuses for a more complete description of risks. There is no guarantee any ProShares ETF will achieve its investment objective.

The SPDR® S&P 500® ETF Trust (SPY) seeks to provide investment results that, before expenses, correspond generally to the price and yield performance of the S&P 500® Index. Gross expense ratio: 0.0945%. SPY is subject to the following risks: Equity securities may fluctuate in value in response to the activities of individual companies and general market and economic conditions. While the shares of ETFs are tradable on secondary markets, they may not readily trade in all market conditions and may trade at significant discounts in periods of market stress. ETFs trade like stocks, are subject to investment risk, fluctuate in market value and may trade at prices above or below the ETFs net asset value. Brokerage commissions and ETF expenses will reduce returns.