

# OneEarth ETF

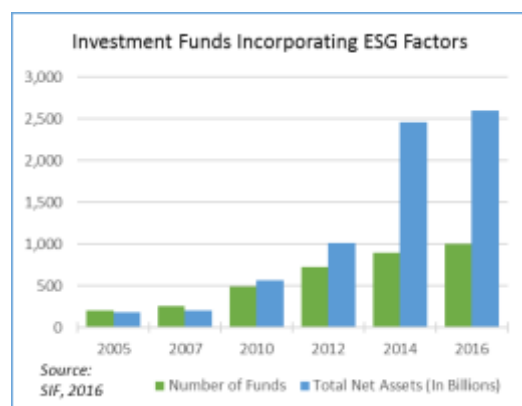
HOLD the **MARKET**, VOTE for **CHANGE**

OneEarth ETF is an exchange-traded fund (ETF) that achieves risk-adjusted market-rate returns while using shareholder activism and proxy voting to change the behavior of the largest companies in the public market. When traditional environmental, social, and governance (ESG) investment products focus on screening out companies with poor practices, they leave potential impact and returns on the table. The OneEarth ETF (ONEE) benchmarks the S&P 500 and uses scale to move companies to integrate Sustainability Accounting Standards Board™ (SASB) accounting metrics into 10-K filings. At the same time, ONEE pursues shareholder resolutions that encourage holding companies in the index to continue to improve their practices, with the goal of improving levels of transparency, disclosure, and performance.

## PRODUCT OVERVIEW

Vehicle	Exchange Traded Fund
Ticker	ONEE
Target Fund Size	\$1,000,000,000
Asset Class	U.S. Public Equities
Benchmark	S&P 500
Number of Holdings	505
Expense Ratio	0.25%

ONEE will be seeded with the capital of institutional investors and will scale through distribution in retail channels. It will tap into two sources of demand: the growing trend toward passive investment strategies and the growing investment power of millennials. ONEE will capture investor demand for passive investing, which now accounts for 28.5% of U.S. assets under management, and is predicted by Moody's to accelerate once market share reaches 30% and surpass 50% as early as 2021.<sup>1</sup> It will also capture the \$30 trillion wealth transfer to millennials predicted in the next 30-40 years and their desire to employ values-based investing strategies.<sup>2</sup> To date, these strategies have largely been confined to ESG funds that apply screening criteria to remove poor ESG performers rather than influence them to change behavior. By making proxy voting more salient for passive investors, and allowing both institutional and retail investors to access a diversified, low-cost portfolio that seeks systematic change, the **OneEarth ETF democratizes sustainable investing.**



**FINANCIAL RATIONALE.** Modern Portfolio Theory demonstrates how an investor can construct a portfolio of multiple assets that maximize returns for a given level of risk. By tracking the S&P 500, ONEE offers investors the benefits of a broad, diverse portfolio at a low cost, and the ability to hold the market while voting for impact.

This impact not only influences the sustainability of some of the largest companies in the public market, but it also improves investment performance. In traditional investing, materiality is a fundamental principle that has precipitated mandated financial disclosure in 10-K filings to determine

the health of the firm. Research has shown that material ESG investments at the firm level can lead to long-term outperformance when compared to peers.<sup>3</sup> SASB has identified which sustainability issues are most likely to have material impacts on the financial condition or operating performance of companies within an industry (Figure 1). However, reporting ESG performance is not mandatory and only 10% of companies have integrated sustainability metrics into 10-K filings, a practice that would benefit both investors and companies.<sup>4</sup> Investors want consistent data reported alongside traditional financial filings to improve transparency. Companies that measure these factors are better positioned to manage their business as resources become constrained, encouraging long-term resiliency and increasing shareholder wealth. By encouraging this measurement and long-term resiliency, **ONEE works to increase shareholder value by encouraging company investments in financially-material sustainability projects.**

<sup>1</sup> Loder, Asjlyln. "No stopping the rise of the passivists says Moody's." WSJ. 2 February 2017.

<sup>2</sup> Robaton, Anna. "Preparing for the 30-trillion great wealth transfer." CNBC. 30 November 2016.

<sup>3</sup> Khan, M. Serafeim, G. Yoon, A. "Corporate Sustainability: First Evidence on Materiality." The Accounting Review. Vol. 91, No. 6, pp 1697-1724. 11 March 2015.

<sup>4</sup> Sustainability Accounting Standards Board ([SASB](#)).

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PERFORMANCE	1 Year	3 Year	5 Year	10 Year
S&P 500 Benchmark	11.96%	8.87%	14.66%	6.95%

**CATALYZING IMPACT: WHAT GETS MEASURED, GETS MANAGED.** ONEE proactively encourages better company behavior through the voting of proxies in pursuit of two goals. **1. Short term:** Increase ESG transparency and reporting through the voting of proxies to reach 100% adoption of SASB accounting practices into the 10-K filings of holding companies **2. Long-term:** Voting proxies for improved resource allocation and efficiency based upon financially-material sustainability KPIs, as supported by the SASB Materiality Map™ and leading peer-reviewed academic research. This approach creates a level playing field for all companies, encourages long-term consideration of material ESG investments and allows broader participation of traditional impact investors to encourage best practices. Most critically, it allows companies to identify material environmental issues that will allow greater returns to ONEE and the market more broadly.

Figure 1. Materiality of environmental considerations for various sectors of the S&P 500 benchmark as seen in the SASB Materiality Map™. Dark green highlights areas of high materiality; light green areas of lower materiality.

Source: SASB

Environment	Health Care	Financials	Technology & Comms	Non-Renewable Resources
GHG emissions				Dark Green
Air quality			Light Green	Dark Green
Energy management	Dark Green		Dark Green	Light Green
Fuel management	Light Green			Light Green
Water and wastewater management	Dark Green		Dark Green	Dark Green
Waste and hazardous materials mgmt	Dark Green		Light Green	Dark Green
Biodiversity impacts				Dark Green

**SCALING IMPACT.** As the size of ONEE grows, so will its influence. The ONEE ETF will act as a catalyst to grow and strengthen a movement in the voting of proxies on sustainability issues by leveraging relationships with other long-term asset owners, including pensions and sovereign wealth funds, which are united in managing risks facing the universal ownership of assets. By identifying material investments, ONEE ETF will coordinate proxy voting among traditional passive index investors to scale impact.

RISK FACTORS	MITIGATION
ONEE fails to scale to the proportions necessary for impact	ONEE will begin with outreach to institutional investors, pension funds, and endowments, with later expansion to retail channels with a focus on millennials. Investors want the full benefits of diversification and the ability to actively influence industries that are often screened out by existing ESG funds.
ONEE cannibalizes existing ESG funds, hurting overall ESG industry growth and impact	ONEE will appeal most to passive index investors in vehicles such as Vanguard and BlackRock, many of which have poor records on ESG voting. ONEE will offer a distinct alternative for impact-conscious investors, which is separate and complementary to typical ESG funds that utilize screens.
Investor platforms will not offer the ONEE product because of reputational risk.	ONEE is a standalone product that votes proxies on behalf of its investees. Platforms like Vanguard and Blackrock do not bear reputational risk because they are not directly exercising shareholder activism and challenging firm management.