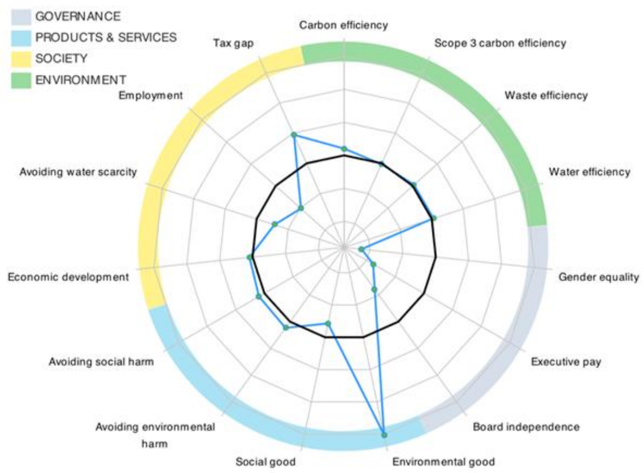

Tesla: royal blue line; **ESG Index:** dark navy circle.
Factors outside the dark navy circle are outperforming.

Impact Cubed

MUSK ADO ABOUT SOMETHING

"Ridiculous. Not worthy of any other response." That was ARK Invest's Cathie Wood's social media reaction to the news that Tesla had been kicked out of the S&P 500 ESG Index.

Cathie Wood @CathieDWood

Ridiculous. Not worthy of any other response.

Eric Balchunas @EricBalchunas · May 18
Tesla has been kicked out of the S&P 500 ESG Index bloomberg.com/news/articles/... via @business
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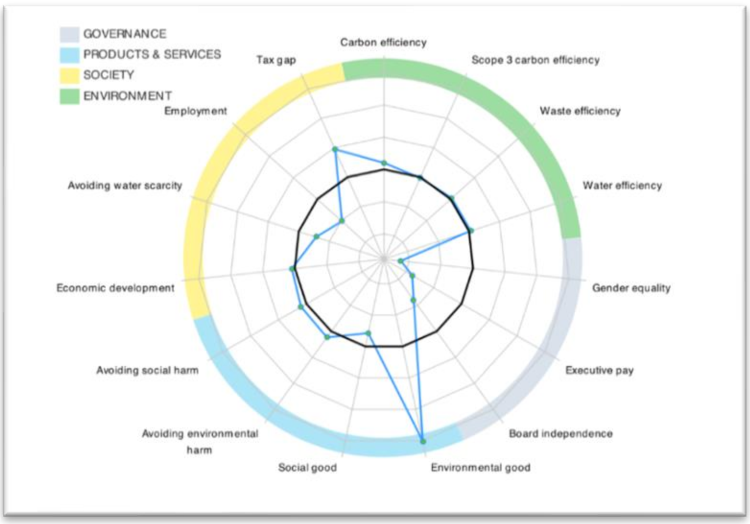
It was also unlikely Elon Musk would remain quiet on the issue. In response to Wood, he dubbed the move "wacktivism". What's that? A quick browse of (admittedly questionable) online resources reveals a few definitions. Broadly speaking, it's a term reserved for action taken to champion causes that self-proclaimed activists actually know little about.

Much of Musk's ire lay in the index relying on ESG scores to determine its constituents. He was keen to point out some conspicuous names that remained following Tesla's omission.

At Impact Cubed we deal in ESG and have to say that Musk makes some relevant points about ESG ratings. Ratings are subjective, lack transparency and confuse investors. Most ratings don't focus on the positive impacts from a company's products and services. And as we've previously noted, they can also dilute positive company characteristics with negative ones.

A company may get a high ESG score because it ranks well from a governance standpoint. It may not have a gender pay gap. The chasm between average and executive compensation may be small. And all this may offset the fact the company is a big polluter.

It should be investors, not Impact Cubed - and especially not third party rating firms – who decide what they want to finance in their portfolios. And why would you rely on opaque, subjective ratings when you can use readily available, factual ESG data and tech-powered tools to measure companies on individual factors you care about? See the image below, for example, showing how Tesla stacks up against the S&P 500 ESG Index:



Tesla: royal blue line; **ESG Index:** dark navy circle.
Factors outside the dark navy circle are outperforming.

As you can see, Tesla vastly outperforms the index with its SDG-aligned, environmentally good revenue from its products. This makes sense. Tesla's cars will cut carbon emissions from transportation – one of the sectors contributing most to climate change.

Musk's anger is even more understandable when you compare Tesla's performance to Ford, which remains in the ESG index. Ford lags Tesla on environmentally good revenue from electric vehicles as well as social factors (tax gap, economic development, and avoiding water scarcity). Overall, Ford has a negative net impact (-259 bps) and Tesla has a positive net impact (38 bps) compared to the index.

Tesla: orange; **Ford**: blue; **ESG Index**: dotted line.
Factors outside the dotted line are outperforming the index.

You may also notice from this graph, however, that when it comes to governance Tesla is on par with Ford on board independence but below Ford on gender equality and executive pay. And, both companies rank below the index averages for these governance factors.

Should we ignore Tesla's (or Ford's) underperformance in these areas? Of course not. Investors should know about the way the firm operates. Access to this information allows them to make informed decisions about whether to include the company in portfolios.

A sustainable investor who cares most about climate may well want exposure to Tesla. Those with more of a slant towards governance may wish to exclude the stock. But this is only possible if the investor can see the facts. That won't happen with opaque rating systems applying their own subjective weights to different topics.

And, since Musk publicly referenced the company, let's look at how Tesla stacks up against Exxon. Is Exxon a better sustainable investment than Tesla? Both outperform the index on some factors, with Exxon generally better on social and governance factors and worse on environmental ones. Not surprisingly, Exxon's revenue from environmentally harmful products is much worse than the index and Tesla's revenue from environmentally good products is much better than the index. Overall, taking into account both the operations and products, the net impact of Exxon is -590 bps and Tesla is 38 bps relative to the index.

Tesla: orange; **Exxon**: blue; **ESG Index**: dotted line. Factors outside the dotted line are outperforming the index.

Would you like to try out Impact Cubed's Platform to see the facts and do some comparisons yourself? Get in touch at info@impact-cubed.com.

ABOUT IMPACT CUBED

Impact Cubed provides ESG analytics and investment solutions for building more sustainable portfolios with greater impact. It combines an award-winning approach to integrating impact into risk and return with technology-enhanced portfolio design and management. The outcome is a seamless approach to customised sustainable investing.

You can find out more about our data and portfolio models at www.impact-cubed.com and if you would like to contact us at info@impact-cubed.com we would be happy to hear from you.

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