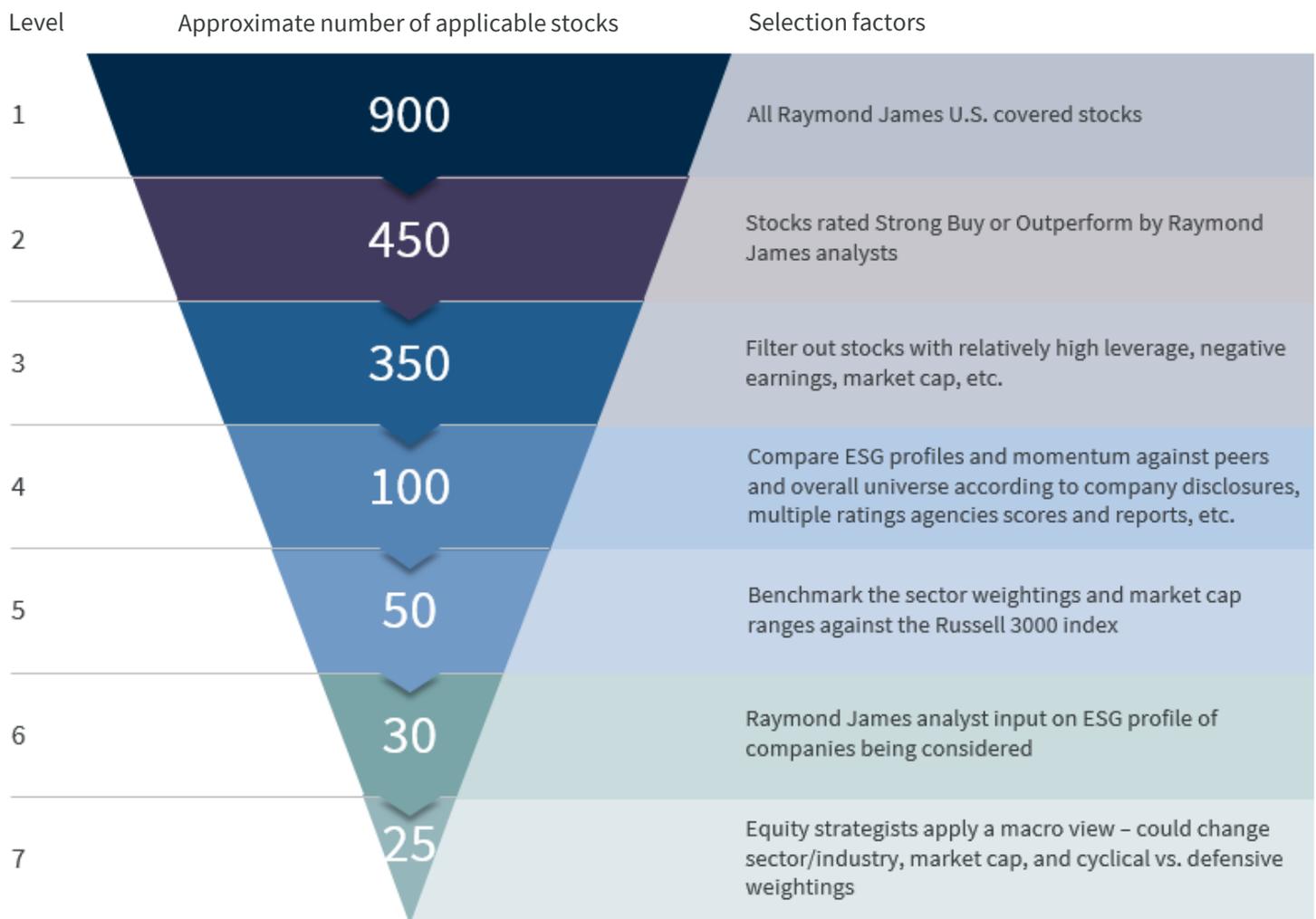


# ESG Top Picks

Raymond James began systematically writing about environmental, social and governance (ESG) topics in early 2020. In December 2020, the Raymond James Institutional Equity Strategy team began publishing a monthly **ESG Top Picks** list. The inclusion of ESG criteria in portfolio selection becomes more important every year, and Raymond James Equity Research aims to provide an easy way to determine the companies we think have the best ESG profiles and return potential.

## AT A GLANCE: THE ESG TOP PICKS SELECTION PROCESS

The graphic below presents a simplified view as to how we determine the ESG Top Picks list.



## STARTING WITH COVERED STOCKS

Our ESG Top Picks selection process begins with the Raymond James covered stocks (approximately 900+ securities). We then select only Strong Buy or Outperform equities rated by the fundamental analyst that covers that industry.

Certain stocks are then excluded: stocks of companies with relatively high leverage (against industry peers) as measured by net debt to EBITDA, stocks that are too small in market cap (under \$1 billion at time of addition to list) and any penny stocks (share price of \$5/share or less).

## ESG ANALYSIS

At this point, we examine the ESG profile of the remaining covered stocks (approximately 100 companies). We use [Sustainalytics](#) risk rating scores to compare sustainability profiles against industry peers and the momentum (positive or negative movement) of those risk rating scores. The ESG risk rating measures a company's unmanaged ESG risk. An ideal company has a low level of unmanaged risk. The Sustainalytics reports allow us to see a comparison of each stock against their industry peers and the global universe of stocks, and monitor for any controversies that may indicate underlying risks for the business.

## ESSENTIAL ANALYST INPUT

After evaluating the quantitative rankings, we leverage the expertise of Raymond James industry research analysts. We discuss the remaining names with the relevant analyst and look for what the ESG ratings don't tell us. For example, with small

cap companies, ESG risk ratings can provide limited or no detail due to lack of disclosures as companies do not have the resources to devote to providing ESG disclosures or monitoring. Research analysts are a great resource to turn to in this instance – they are likely to have a firm grasp of what management is doing versus peers on major sustainability issues, even if the company does not have specific disclosures or reports to the ESG ratings agencies. This allows us to add smaller cap and newer stocks to our list, as analysts can provide their opinions on the ESG profile of companies that may not be covered by any of the ESG ratings agencies yet.

## APPLYING A MACRO VIEW

Finally, we cull the remaining stocks down to a list of 25 by applying our equity strategists' views on the macro environment. This overlay could increase the weight of one sector over another due to a particular sector expectation at that time, a cyclical versus defensive bias, or a shift in market cap weighting versus the index.

The Russell 3000 is used as the benchmark for this list as we feel the breadth of market caps and industry exposures is most appropriate to benchmark against for the Raymond James coverage universe.

In an effort to avoid the typical bias in ESG scoring and profiles in favor of large cap, tech heavy names, or underweighted to pure energy plays, we align the stock selections to be similar to the Russell 3000 Index. Typically, we seek to stay within +/- 10% of sector weightings versus the index.

**Learn more about the ESG Top Picks list by contacting your advisor.**

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