

**Company: Ethic** (\$99.29M raised so far at \$500M post, raised \$50M series C in Sept 2022 – different times)

**Description:** Ethic Inc. ("Ethic") is a tech-driven platform specializing in personalized, values-aligned investments. The firm crafts custom sustainable portfolios for wealth advisors, family offices, and endowments. As of Q1 2024, Ethic manages over \$5 billion in assets, having more than doubled its AUM since early 2023. Approximately 80% of this growth has originated from multi-family offices, single-family offices, and institutional investors, highlighting Ethic's strong foothold in high-net-worth and institutional markets. The company collaborates with 175+ advisory firms to deliver tailored portfolios that incorporate ESG data, ensuring transparency in impact reporting.

**Unique Value:** Ethic's platform utilizes advanced, data-driven customization and proprietary ESG integration for portfolio construction. Its key differentiators include scalable, individualized ESG portfolios that minimize tracking error against industry benchmarks, an intuitive user interface, and clear impact metrics—elements that are pivotal in attracting advisors seeking bespoke solutions over traditional pooled investment vehicles.

**Advisors and Investors:** Backed by Fidelity Investments, Sound Ventures, and NYCA Partners, supporting growth and operational scalability.

#### MERITS:

- **TAM and Traction:** ESG assets are projected to grow at a 12.9% CAGR, reaching \$53 trillion in 2025. Ethic's Serviceable Obtainable Market (SOM) is estimated between \$9.6B and \$15B (see table), supported by its current \$5B AUM.
- **Unique value proposition:** Ethic's management fee of 1.5%, higher than the industry average of 0.6%, is warranted by its proprietary ESG matching algorithm, which empowers wealth advisors to create personalized investment portfolios that align with their clients' values and ensure transparency, control, and measurable impact.
- **Additional Revenue:** Ethic is poised to capitalize on diverse revenue streams, including investment portfolio lending, tax-advantaged SMA portfolios, and an ESG-portfolio-matching SaaS model.
- **Team:** The founding team brings valuable experience in M&A, investment banking, and fintech, earning recognition from Forbes 30 Under 30, the British royal family, and Top 10 Social Impact Entrepreneurs, among others.
- **Exit Opportunities:** Ethic's pre-money valuation is compelling, supported by favorable market multiples and active M&A trends in the asset management sector, such as the acquisitions of Aperio Group, Parametric, and LGT's abrdn Capital. This market alignment enhances Ethic's potential to deliver attractive, risk-adjusted returns, aligning well with investor interest in high-quality, mission-driven assets.

Fund Category by AUM <i>Assumption: 5% of total fund AUM is ESG</i>	Total Avg ESG Fund Size	Expected # of Epic's Clients	Epic's Total Expected AUM as a % of Client's ESG Fund Size	
			Low <i>5% of ESG AUM</i>	High <i>8% of ESG AUM</i>
Small (<\$20B in AUM)	\$639	7	\$223	\$358
Mid-Sized (\$20B to \$80B in AUM)	\$2,164	4	\$433	\$693
Large (\$80B to \$1.2T in AUM)	\$13,154	2	\$1,315	\$2,105
Mega (\$1.2T to \$10T in AUM)	\$153,433	1	\$7,672	\$12,275
<b>Total</b>	<b>\$169,390</b>	<b>14</b>	<b>\$9,643</b>	<b>\$15,429</b>

*All figures mentioned are in \$M, and all funds listed report positive EBITDA.*

#### CONSIDERATIONS:

- **Valuation and Profitability Challenges:** Inflated valuations in the asset management sector may result in lower multiple step-ups in future financing rounds, particularly as Ethic's post-money valuation (~\$500M) may be considered high in the current funding landscape. Moreover, approximately 80% of publicly traded small asset management firms are unprofitable, highlighting potential growth challenges for Ethic.
- **Customer Acquisition and Greenwashing:** Ethic's 1.5% fees necessitate returns exceeding those of the S&P 500 to attract clients. Additionally, significant holdings in mainstream companies raise the risk of backlash from consumers wary of Greenwashing as 60% may switch brands due to such concerns.
- **ESG Risks:** The ESG landscape is unstable due to changing SEC definitions and shifting public sentiment, marked by rising skepticism around ESG initiatives. Inconsistent impact metrics and potential asset bans in states like Texas further complicate the investments.

#### DUE DILIGENCE QUESTIONS:

1. What adjustments are you making to your growth strategies in response to current economic trends?
2. How do you manage emerging ESG risks within your operational framework?
3. What impact do you anticipate from regulations on your market positioning and growth potential?
4. How do you plan to differentiate your firm in a competitive landscape?
5. What initiatives are you implementing to enhance client engagement and justify your fee structure?

