

ESG-Integrated Investment Framework

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December 2025



My Philosophy

Objective

- To identify companies that generate sustainable long-term alpha by systematically integrating material ESG factors into traditional fundamental analysis, rather than treating ESG as a constraints-based or exclusionary overlay

Core Beliefs

- ESG factors are financially material when they affect cash flows, cost of capital, or terminal value
- Markets misprice ESG risks and opportunities, particularly when:
 - Impacts are long-dated
 - Externalities are weakly regulated
 - Disclosure quality is poor
 - ESG integration should improve risk-adjusted returns, not dilute them

What this framework is NOT

- Not values-based screening only
- Not score-chasing or ratings arbitrage
- Not impact measurement divorced from financials

The Framework

My framework takes a top-down approach. Each step answers one investment question, not just describe ESG!





Let's Dive In!

Step 1



Idea Generation & Universe Definition

Sources

- Structural themes (energy transition, climate adaptation, financial inclusion, healthcare access)
- Regulatory change (carbon pricing, disclosure mandates, labor laws)
- ESG controversy or transition situations (temporary ESG weakness with credible improvement path)

Universe Filters

- Minimum liquidity & governance standards
- Exclusion only where terminal risk is non-mitigable (e.g., stranded assets without transition plan)

Step 2



ESG Materiality Framework (1/2)

(i) Identify Industry-Specific ESG Issues

Sample materiality matrix:

ESG Pillar	Material Question	Financial Link
Environmental	Carbon intensity vs peers?	Margin pressure, capex, terminal multiple
Social	Exposure to labor / customer harm?	Revenue durability, brand risk
Governance	Capital allocation discipline?	ROIC, downside protection

ESG Materiality Framework (2/2)

(i) Split ESG into two lenses

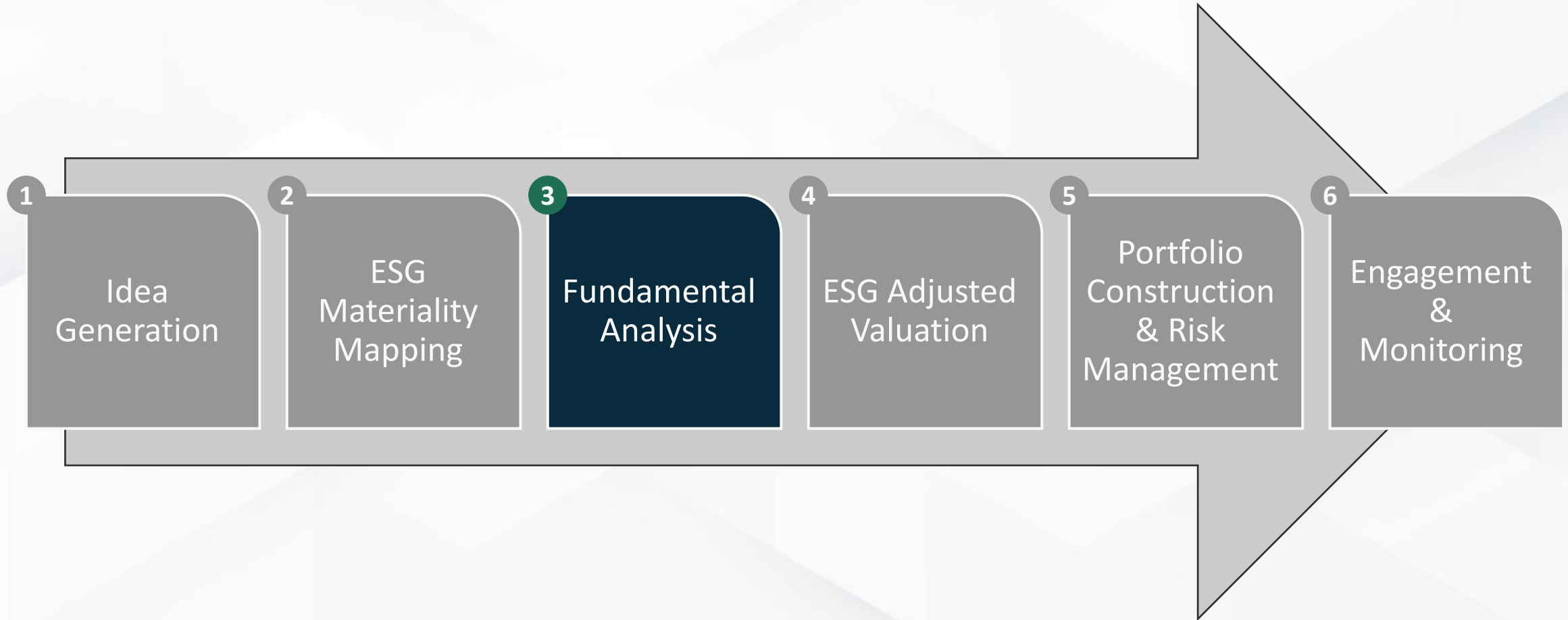
Opportunities

- ✓ Pricing power from sustainable products
- ✓ Market share gains
- ✓ Lower cost of capital
- ✓ Access to subsidies / green financing

Risks

- ✗ Regulatory penalties
- ✗ Cost inflation
- ✗ Demand destruction
- ✗ Litigation / reputational shocks

Step 3



ESG-Integrated Fundamental Analysis

Income Statement Adjustments

- Carbon costs → margin compression
- Labor standards → productivity & turnover assumptions
- Product sustainability → pricing power

Balance Sheet Implications

- Environmental liabilities
- Capex required for transition
- Asset stranding risk

Cash Flow Impact

- Higher near-term capex, stronger long-term FCF
- ESG investment as growth capex, not compliance cost

Step 4



ESG-Adjusted Valuation

Absolute valuation process that takes into account the three valuation levers ESG affects!

Cash Flows

- Adjust growth, margins, reinvestment

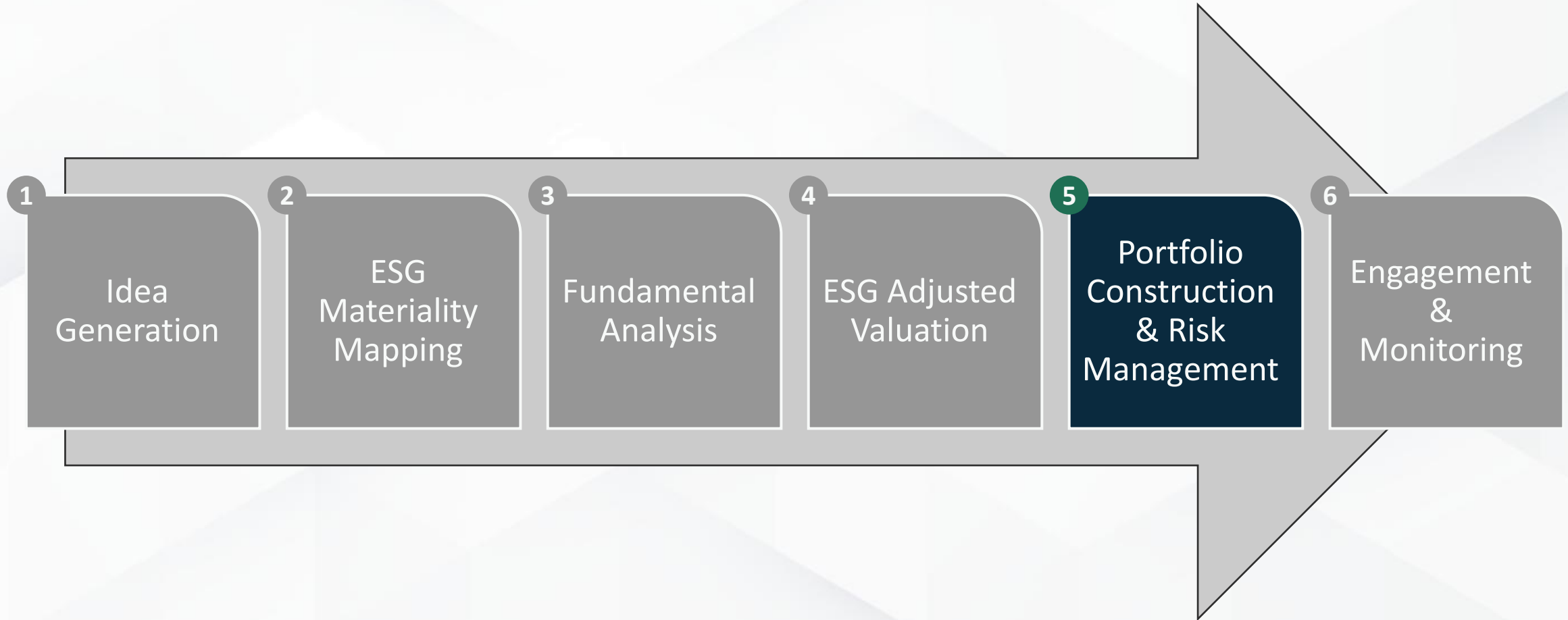
Discount Rate

- Governance quality → equity risk premium
- ESG risk → country / company risk premia

Terminal Value

- Transition readiness → terminal multiple

Step 5



Portfolio Construction & Risk Management

Position Sizing

- Higher ESG uncertainty → smaller initial weights
- Conviction increases as execution improves

Risk Controls

- Sector-level ESG concentration
- Regulatory correlation risk
- Greenwashing risk

Time Horizon

- Explicitly long-term (3–5 years)
- Willingness to underperform short-term

Step 6



Engagement & Monitoring

Active Ownership Plan

- Engagement objectives (e.g., emissions targets, board independence)
- Milestones & KPIs
- Escalation strategy (vote, reduce exposure, exit)

Ongoing Monitoring

- ESG controversies
- KPI tracking
- Thesis drift

Thank You!



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~1.5 years of experience in ESG / impact-oriented investments

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Open to full-time roles in impact investing and sustainable financing!