

Client Case Study

Zeo Capital Advisors

CLIENT PROFILE



Fixed income mutual fund manager focused on fundamental credit, risk-adjusted returns and low volatility

Headquarters
San Francisco

AUM
\$340 million

Background
Zeo considers ESG factors fundamental in assessing a bond issuer's credit risk. The firm wanted an ESG research solution not simply to rank companies, but to inform its thinking and decision-making process.

TRUVALUE PLATFORM™ and TRUVALUE DATA™

- ▶ Leverages artificial intelligence to track companies' actual ESG behavior in real time
- ▶ Enables investment managers to incorporate SASB materiality factors into research analysis
- ▶ Provides historical data to enable the evaluation of ESG performance over time
- ▶ Drives analytical productivity and efficiency by sourcing data on thousands of companies from thousands of sources with unprecedented speed

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VENK REDDY
Chief Investment Officer and Portfolio Manager, Zeo Capital Advisors

Much of the attention paid to environmental, social and governance (ESG) factors in investment decisions is focused on ESG "products" or funds targeting investors seeking to invest responsibly. There's a growing consensus, however, that ESG research and analysis is fundamental to any rigorous evaluation of a company's future prospects.

Fixed income fund manager Zeo Capital Advisors came to that conviction through first-hand experience. "Not every portfolio we have is labeled an ESG or sustainable portfolio," explains Venk Reddy, the San Francisco-based firm's founder and Chief Investment Officer. "But a few years ago, one of our clients asked us if we would be willing to manage a sustainable credit strategy. The first thing we did was some investigation and realized that our existing portfolio actually consisted of issuers that already met the standards for an ESG portfolio. That was an interesting discovery."

Risk management is core to Zeo's investment process. The firm rigorously scrutinizes the credit risks of every bond issuer it is considering. "Fixed income is risk management," Venk observes. "That's really what it comes down to in our view. Our approach to fixed income is one of capital preservation, which is a risk management task, not a return-seeking task."

ESG performance assessments figure prominently in the firm's risk management methodology. "If you're trying to target risk-adjusted returns, you're doing two things. Number one, you're trying to find good companies that deserve to be in business. And number two, you're trying to mitigate volatility. Our focus is on identifying those risk factors that either compromise the security selection or that introduce volatility catalysts. Companies that are not exhibiting or practicing sustainable business practices are creating long-term liabilities for themselves."

Although Zeo manages a Sustainable Credit Strategy, the firm applies the same philosophy to its Short-Duration Income Strategy. "It's not 'ESG for ESG investors' and then regular high-yield credit for everybody else," Venk says. "If you want a good credit portfolio, we believe you'll get a better credit profile on each company when you take ESG factors into account."

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Truvalue Platform: Real ESG Performance in Real Time

Recognizing the value of ESG analysis in evaluating credit risk, Venk and his team needed a reliable source of ESG data and research. They had conducted their original analysis of their existing fund using traditional ESG data and ranking sources, which rely heavily on self-reported company information from annual reports and analysts’ views. In Venk’s view, they came up short. “Number one, their coverage of high-yield and credit in general was weak. And number two, they tended to disagree with one another a lot. We aren’t looking for recommendations. We wanted something that was actually part of our investment process, that was intentional and specifically pointing to the portfolio that we were looking to have.”

An ESG portfolio consultant introduced Venk to Truvalue Labs at an industry conference, and he realized their solution was different from traditional sources. Truvalue Platform uses artificial intelligence and natural language processing to sift through vast volumes of unstructured data and uncover indicators of ESG behavior in real time—not just what companies are saying about their ESG policies, but what they are actually doing and the resulting public sentiment. The platform was the first ESG data and analytics product to score companies based on the Sustainability Accounting Standards Board™ (SASB™) materiality framework.

“We quickly decided we wanted to align ourselves with the SASB standards,” Venk says. “Truvalue Platform helped us structure our SASB research framework. What Truvalue Labs and the SASB standards allow us to do is identify those material factors on the companies we’re researching, and then we go do our own work to reach a decision. The further benefit that we get from Truvalue Labs is the ability to look at peers within the same framework. That’s really important.”

Truvalue Labs also provides historical data on company performance relative to ESG factors. “Above and beyond SASB risk factors, we have the ability to see that at a certain point in time, a company was getting a lot of attention, positive or negative, with respect to a particular risk factor. It really helps us dive right into those key risk factors for a given company and look for patterns over time.”

Venk cites the example of a company that was vigorously touting its “green” initiatives but had landed in legislative hot water over questionable pricing practices dating back several years. “With Truvalue Data we were able to peel back the onion and uncover a history of repeated slaps on the wrist for the same behavior.”

More Than Humanly Possible: AI Optimizes Research Efficiency and Productivity

Through artificial intelligence, Truvalue Platform analyzes and interprets massive amounts of data at a speed and scale never before possible—vastly simplifying the work of human analysts and driving productivity in the decision-making process. “Identifying risk factors is very difficult because we can’t read every headline, let alone assess its materiality from an ESG standpoint for the last 20 years,” Venk notes. “That’s the benefit of Truvalue Labs and the effectiveness of their AI. I’m not looking for a service that’s going to tell me a company is good or bad. I’m looking for a service that’s going to make the most efficient use of my time in making my own determination. The most valuable thing I get from Truvalue Labs is the efficiency of identifying the patterns, which we can then decide are material or not to the underlying credit of a company.”

Truvalue Platform and Truvalue Data have become integral to the investment process at Zeo Capital. “We use Truvalue Platform for the sustainable factor component of our investment research, but there are other ways in which this particular solution is conducive to a risk factor-based approach to

evaluating a company's credit. The way we think about it, we are simply identifying those risk factors as to whether a company can repay its debt. We're trying to identify unexpected and unintended liabilities. More and more in today's environment, those liabilities tend to fall in ESG factor areas."

"We are asking people to hire us as credit managers," added Paige Uher, Zeo's Director of Investor Relations. "That means that they expect us to do the heavy lift on the credit research, not outsource it." Paige adds, "We were excited about Truvalue Labs' ESG data, because it helps us to identify where to dig deeper and helps us see what needs more research, not replace it or shortcut it. In short, it helps us do our job better."

About Truvalue Labs™

Truvalue Labs is the first company to apply artificial intelligence (AI) to uncover timely and material Environmental, Social, and Governance (ESG) information at scale. The company's mission is to deliver increased transparency to investment professionals by providing data and analytics that go beyond traditional fundamentals. It is backed by investors including Series A round lead Katalyst Ventures, based in San Francisco. The flagship products, Truvalue Platform™, Truvalue Data™ and Truvalue Cloud™, deliver investable insights by revealing value and risk factors from unstructured data at the speed of current events. Visit truvaluelabs.com to learn more about the SaaS and API products.