ETHICAL CAPITAL OPPORTUNITY ADVISORS
INAUGURAL NEWSLETTER

December 2018

INTRODUCTION FROM THE FOUNDERS

The team at ECO Advisors is very pleased to bring you our first newsletter. Each quarter, we will share with you our business development progress, our market outlook, information on our strategy risk and performance, portfolio positioning, and highlights of our ESG research efforts. We hope you will find it both informative and useful, and we welcome any feedback to improve its value for our readers.

We hope you are as excited about the ECO ESG Absolute Return Strategy - applying ESG data science to drive better, more informed investment decisions - as we are.

Investing always starts with beliefs. We are firm believers in the value of putting ESG at the centre of the investment process - not as an "add-on", and the value that this will deliver both for our investors and for our society as a whole.

We hope you will join us on this journey and please don't hesitate to get in touch if you'd like to learn more. Thank you for your interest in ECO Advisors.

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BUSINESS DEVELOPMENT & OPERATIONAL UPDATE

> FCA AUTHORISATION We are pleased to announce the UK Financial Conduct Authority has approved Ethical Capital Opportunity Advisors Ltd. for authorisation. As of Jan 2, 2019, ECO Advisors will be authorised and regulated by the FCA. Achieving this significant milestone of regulated status will allow us to proceed with our business development and strategy launch in Q1 2019.

> WHAT'S NEXT? We plan to launch our strategy on Pictet's platform as a Luxembourg UCITS fund on our target launch date of Feb 28th 2019. As part of Pictet's compliance and due diligence process, Pictet's team reviews documentation from ECO Advisors on all aspects of our firm policies and procedures and will conduct an onsite due diligence meeting with us in January.

With ECO Advisors' FCA authorisation date now established, Pictet will be submitting the draft investment prospectus and proposal for ECO Advisor's strategy to the CSSF (Luxembourg regulator) immediately upon our authorisation.

> WEBSITE Our team is hard at work developing our website and access portal for our investors. We aim to roll out the first iteration of our website by early January, to coincide with our pending FCA regulated status.

> VALUE FOR EARLY-STAGE ALLOCATORS Finally, we would encourage professional institutional investors to discuss with us the benefits of investing at launch in the ECO ESG Absolute Return Strategy. We believe our fee structure for launch investors - at 60 bps management fee and zero performance fee - alongside access to this level of fees in perpetuity, offers significant value for early stage investors. Please reach out to us if you'd like to learn more.

PORTFOLIO CONSTRUCTION OVERVIEW

Our long/short equity portfolio consists of companies that, on the long side, are either leaders or demonstrate significant improvement in Environmental, Social & Governance 'ESG' issues that are material to their businesses, relative to their peers. Conversely, our short portfolio consists of companies that are laggards or whose ESG performance is significantly deteriorating in areas material to their businesses, relative to their peers. From a starting universe of more than 4,500 investable companies globally, our ESG data science & analysis process, with its focus on outliers of ESG behaviour, identified a subset of ca. 280 companies deemed to be leaders or improvers (potential longs) together with a similar number deemed to be laggards or deteriorators (potential shorts). We apply our portfolio construction & risk management processes to these long & short investible candidate pools in order to optimise the risk & return profile of the long/short strategy.

The core tenets of our long/short ESG investment & portfolio construction philosophy are *diversification* and *balance*, in order to allow the Environmental, Social & Governance differences between our long & short positions to drive long-term performance over the cycle. Our portfolio construction process seeks to mitigate sector, country, valuation, style and other risk factors in order that they do not materially drive portfolio risk and return.

With any long/short equity portfolio, even after the application of a risk mitigating construction process, there will always be residual risk drivers to monitor, as well as other non-linear 'exogenous' risk exposures to manage. Our responsibility as managers is to understand, quantify and manage these risks as necessary.

Our pre-launch portfolio is the culmination of this three stage process.

OVERVIEW OF CURRENT 'PRE-LAUNCH' PORTFOLIO POSITIONING

(SEE APPENDIX FOR PORTFOLIO EXPOSURE SUMMARY DATA)

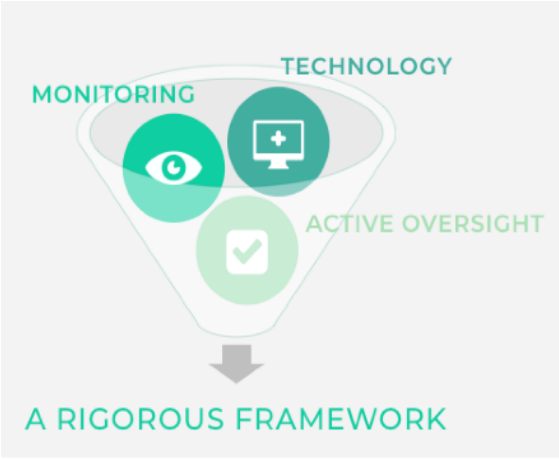
> ***SECTORS*** From a GICS sector perspective, on a net basis, we have a conservative exposure to any single sector, with our largest net exposure at ca. +5%. On a gross basis, our exposures vary from 10% - 30%, with our largest exposure at ca. 30% in Industrials. Our gross sector exposures are determined by the opportunity set identified by our ESG data research along with our portfolio construction process.

> ***COUNTRIES*** From a country perspective, we aim to have a low net exposure to any individual country. This is central to our portfolio construction methodology. On a gross basis, the US represents our largest exposure, and our geographical gross exposure is reasonably consistent with the geographical exposure profile of major global equity benchmarks. We believe ESG will prove to be a powerful driver of equity performance within emerging markets in coming years. Gross exposure to emerging markets, stands at ca. one fifth of our total gross exposure. We pay particular attention to country exposures and related risk drivers (such as FX, liquidity & politics) as part of our risk management process. Our goal is to ensure a portfolio that can withstand or avoid extreme risk events of the like witnessed in Turkey, Brazil and even Italy in recent months. On a regional net exposure basis, the portfolio has a modest overweight position in western Europe, a modest short exposure to emerging markets, with a more neutral exposure to the US & Japan.

CONT. - CURRENT 'PRE-LAUNCH' PORTFOLIO POSITIONING

> STYLE FACTOR POSITIONING Our construction process seeks to ensure that style risks are not significant drivers of performance. On an aggregate basis, the portfolio's *ex-ante* style exposures are very modest. Exposure to factors such as size, momentum and growth are negligible in our analysis. From a valuation perspective, metrics such as P/E, dividend yield, P/B & FCF are balanced when comparing the long vs. short portfolios. The strategy has a modest long exposure to companies that display lower variability of earnings, as well as a short exposure to companies with higher leverage. Whilst modest, these exposures are consistent with the factor footprint associated with our ESG data driven stock selection process. Whilst portfolio net exposure stands at ca. 30%, the portfolio's beta adjusted net exposure stands at only 15%, consistent with its market neutral profile.

> RISK EXPOSURES AND STRESS TESTING Whilst a simple directional outlook for global equities is not directly relevant for our strategy, we remain cognisant of our residual risk exposures, factor footprints and any other associated risk drivers. We are comfortable with the strategy's modest long tilt to western Europe, as we believe continued loose monetary conditions and lack of inflationary pressures should prove supportive. Indeed, we noted with interest in the recent sell off that US equities did not outperform European equities, something that has not been the case in recent declines. Within Europe, the strategy has no exposure to Italy.



A stress test assessing the impact of a 'no-deal Brexit' scenario suggests only a modest negative impact on the portfolio. Our expectation is that such a scenario, despite much noise, is unlikely to occur.

Emerging markets have suffered significant underperformance this year, such that valuation levels have significantly corrected. We are cognisant that our modest short exposure should be kept limited as we recognise the possibility that any hints of a change in Fed policy or cooling of trade disputes could trigger a reversal in this trend. We were encouraged to see a positive contribution from our flat net position in Brazil during the recent volatile election period.

Finally, we are mindful of any change in the global inflation & real interest rate regime which could benefit highly leveraged companies. A relatively consistent factor footprint of our ESG data driven stock selection process is an association between companies with higher leverage & poor ESG characteristics. We will address what may drive this association in future newsletters, suffice to say that consideration of this factor forms a key part of our portfolio construction & risk management process.

We remain comfortable that the strategy's modest residual exposures are appropriate given the current uncertain macroeconomic and market environment.

OCT / NOV 2018 - MARKET SUMMARY

Global equity markets have been under pressure since early October. The initial catalyst was a surge in treasury yields amidst higher inflation data and the spectre of a hawkish US Fed. The selling gathered momentum in October as macroeconomic growth indicators in most major regions slowed. Furthermore, there was no resolution in sight for the ongoing US-Sino trade disputes. Earnings season did little to reassure investors as many European & US companies delivered disappointing numbers, littered with soft forward guidance. Cyclical sectors generally underperformed, whilst utilities & staples outperformed. The global technology sector underperformed amid lower guidance from a number of bellwether names, compounding concerns relating to a buildup of negative Social and Governance related issues (Facebook, in particular, has been heavily criticised).

- Brazilian equities were the standout global outperformer (+13% in USD terms) as investors reacted positively to the election of right-wing populist candidate Jair Bolsonaro.
- From a peak of over $85 per barrel, the price of crude oil declined ca. -30% over the period, driven by oversupply fears. Unsurprisingly, global Energy stocks also declined sharply (-14%).
- The decline in oil also helped temper the rise in US treasury bond yields, with the 10y yield declining from highs of 3.2% to end the period flat at 3.0% as inflation expectations declined.
- In currencies, the US dollar was broadly stronger over the period, gaining 2.25% on a trade weighted basis. There was a stabilization in some of the emerging market currencies that underperformed sharply in H1 2018.

PRE-LAUNCH PORTFOLIO - PERFORMANCE SUMMARY

OCT & NOV 2018

	QTD	YTD	SI Ann
ECO ESG Absolute Return - pre launch portfolio (gross)	1.4%	0.3%	6.8%
MSCI ACWI net TR ($)	-6.1%	-2.6%	9.6%
Barclays Gbl-Agg bond TR USD	-0.8%	-3.2%	0.7%
Eurekahedge Equity Market Neutral Hedge Fund Index	-2.3%	-1.8%	3.3%

Note: The data presented is based on gross backtesting research & does not represent actual investment performance. Date range 1st Jan 2012 to 30 Nov 2018. See disclaimer for details. Source: ECO Advisors, Bloomberg, MSCI

In a particularly volatile two months for global equity markets, we were encouraged by the resilience of our pre-launch portfolio. The market neutrality and relatively low sensitivity to some of the highest areas of country and factor risk helped the strategy to post a modest gain over the period (+1.4%, gross). The long book detracted -560bps, whilst the short book contributed +700bps.

Overall contributions to Q4 2018 performance from factor, country and style risk drivers were modest, whilst the contribution of ESG stock selection was positive. On a gross sector basis, gains were made in Materials (+100bps) and Health Care (+80bps), whilst Utilities (-50bps) detracted. Overall, North America and Emerging Markets contributed, whilst Europe detracted, broadly inline with the strategy's relative beta exposures.

In a falling market environment, inevitably the short book drove contributions over the period. Top contributing shorts included Herc Holdings, Universal Display Corp, Zillow, Equifax, CencoSud, Subaru and Nissan. In the Case of Nissan, chairman & CEO Carlos Ghosn was arrested and accused of reporting only half of his income in the 5yrs to March 2015. Our analysis showed Nissan to be a laggard relative to peers in a number of key ESG areas, including corporate governance and environmental performance.

CONT. - PRE-LAUNCH PORTFOLIO - PERFORMANCE SUMMARY, OCT & NOV 2018

Cencosud, the South American supermarket retailer, reported disappointing earnings in the wake of the departure of its CEO earlier in the summer. The company cited a challenging consumer environment in a number of its end markets. Our data analysis points to a number of supply chain risk issues associated with the company, in areas such as deforestation and agriculture as well as poor corporate governance relative to peers.

Equifax, the US listed data and information company, declined in October driven by sales & earnings in Q3 which came in below analyst expectations. Last year's data breach continues to weigh on its reputation.

Universal Display, the US developer of OLED (organic light emitting diodes) technologies, experienced significant price declines in November driven by negative earnings estimate revisions. The company's focus on a single piece of technology is seen as a major risk by some investors. Our data analysis shows declining performance in areas surrounding sustainable supply chains & sourcing of materials, as well as underperformance in areas of corporate governance relative to peers.

In the long book, aside from names in Brazil, whose performance was largely driven by the political backdrop, Cree Inc, Orange, Rakuten & Puma all gained against a negative backdrop. Cree, the US LED & semiconductor components manufacturer, was a strong performer over the quarter driven by good earnings and especially Q3 EPS which beat analyst forecasts. Rakuten, the Japanese online retailer, reported results which showed continued positive business momentum. Our data analysis shows the company has recently improved in areas such as staff satisfaction, labour management policies and data privacy.

ESG RESEARCH

Our approach to applied ESG research

At ECO Advisors, we believe that the ESG landscape is dynamic, not static, both from a data standpoint ("what is available?") as well as a materiality standpoint ("what is relevant for corporate outcomes?"). The changing environment in terms of both availability and relevance is one of the reasons that, in our view, "passive" or a strictly rules-based approach to ESG investing currently has and will continue to have significant limitations. Furthermore, we believe that *how* one uses the information and insights that can be gained from ESG data analysis — how the data is incorporated into the portfolio construction and risk management process — is an equally important component of the research process. As Ella Fitzgerald sang, "Tain't what you do it's the way that you do it, that's what gets results."

When it comes to utilising ESG content, we wholeheartedly agree with Ella. Methodology matters, both for suppliers of ESG content, as well as the investment managers who use these data.

As an active manager, we carry out different aspects of applied ESG research, but at the heart of our efforts we are always looking to further insights into these three areas: (1) data availability, (2) data relevance and materiality, and finally, (3) how best can we make use of (1) and (2) to improve the investment process and our portfolio return and risk characteristics, i.e, data implementation.

CONT. - ESG RESEARCH

Staying ahead: ESG themes and thematic monitoring

As part of an ongoing focus on data relevance and materiality, we look to identify and monitor current and emerging ESG themes. We believe the materiality of these themes for companies and industries can evolve and increase in importance over time.

Our goal is to monitor development of the theme, as well as examine and determine if the theme is having a greater impact on risk & performance for corporates over time, and adapt our investment process accordingly. While these themes are incorporated into our existing investment process, we understand that the materiality profile can shift (for example, supply chain issues currently material for certain industries can start to become material for other industries) and of course new data may become available to incrementally improve the investment process.

Current ESG themes

- "Gig economy" and potential labour market regulation
- Corporate supply chain issues - food or apparel retail
- GHG / Climate Change
  - -Business model risk related to carbon pricing and regulation
  - -Business risks related to extreme weather
- Technology negative externalities: social media, privacy, data security, antitrust
- Palm oil and related ecosystem degradation
- Plastic (tax, regulation)
- Gambling (tax, regulation)
- #MeToo, diversity & inclusion

Our process around ESG themes involves four components: (1) identification and monitoring of emerging themes, (2) tracking the development of the theme (media mentions, expert mentions), (3) evaluation of available data around the theme, (4) testing and evaluation of incremental alpha potential.

For this newsletter, we will share some of our thinking around the supply chains thematic, and discuss the relevance to our portfolio. Future newsletters will cover other themes.

Alignment with the UN Sustainable Development Goals (SDGs)

There is a final component to our research efforts, motivated by our social mission to drive capital allocation with positive impact. This final component involves working to understand and improve on reporting and transparency of "impact" related metrics in our strategy, particularly in regard to the UN Sustainable Development Goals ("SDGs").

The SDGs and their associated targets are quickly being adopted by both the corporate and investment community as a "common language" to communicate about positive impact. While this adoption is a useful development, understanding the relative degree of both alignment with the SDGs, as well as "intentionality" or "additionality" for public equities, poses significant conceptual as well as empirical challenges.

Understanding SDG alignment is an active current subject for ECO Advisors' research, and we intend to publish our approach to SDG alignment prior to the launch of our absolute return strategy.

ESG Research theme: supply chains

In the corporate world, supply chain management as a risk factor has traditionally been considered from the perspective of resource optimisation and logistics efficiency relating to corporate profitability. However, we believe supply chain risks also expand to a much wider array of issues, such as environmental footprint and social risks.

As the societal expectations for responsible business practices from stakeholders increase, we believe investors and corporates must adopt a more holistic approach when assessing the impact of how companies govern their local and overseas suppliers. In other words, it is no longer sufficient for investors to conduct due diligence and audits on companies *purely* in financial terms - the factors that affect SDGs, for better or for worse, are becoming material to long term business performance.

What are the implications for corporates? Consideration of the SDG framework basically equates to redesigning supply chains in a way that a company's environmental and social commitments are taken into account. We believe probing into supply chain impacts is often key to decide how investable companies are for the long term. Furthermore, it is typically further down the supply chain that we see more vulnerable and marginalised groups affected by corporate decisions. It is no longer acceptable to outsource and ignore the wider consequences, the risks are too great.

Why place additional emphasis on supply chain robustness from an ESG, SDG or "non-financial" perspective? The danger of not doing so can materially impair a company's' key strategic asset: its reputation. We have learned from many supply chain controversies such as the Rana Plaza tragedy in the apparel sector, child labour issues in mica mining for the cosmetics sector, forced labour, and a variety of poor practices in agriculture, fishing and construction amongst others. It is clear to us that evaluating supply chains for our portfolio through the lens of SDGs and the UN Guiding Principles on Business and Human Rights (UNGP) is vital to mitigating long term investment risks.

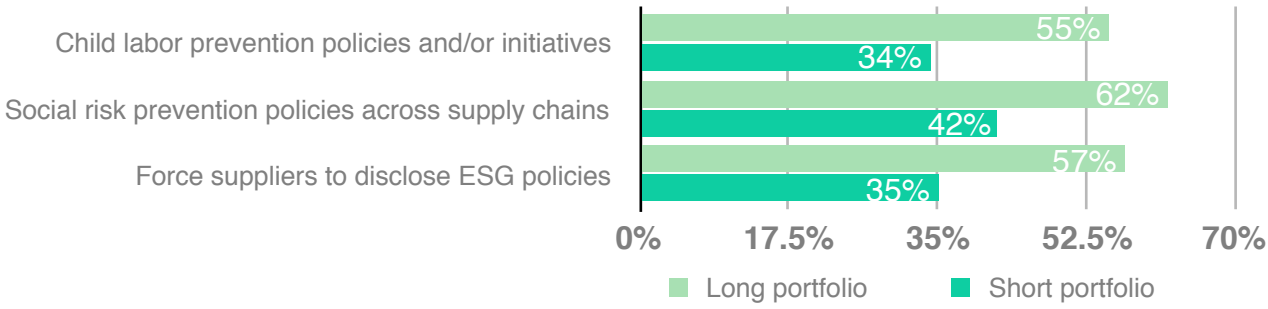
Furthermore, the power of social media can now quickly magnify brand damage. Companies such as Tesco ("horsemeat scandal"), Benetton Group (Rana Plaza tragedy), Sports Direct (numerous issues) are testament to this.

Inadequate supply chain risk management can also destroy shareholder value when weak points are exposed due to exogenous events. Most recently, the bankruptcy of Hanjin Shipping left numerous global retailers exposed to supply disruptions in 2016.

Our analysis chimes with academic research (Hendrix et al, Richard Ivey School of Business) who, in 2005 concluded "Firms suffering from supply chain disruptions experience between 33% to 40% lower stock returns relative to their benchmarks over a three year time period that starts one year before and ends two years after the disruption announcement date."

ESG in action: supply chains

Here we look to invest in companies which demonstrate leadership in striving for more long-term, lower risk and sustainable partnerships with their suppliers, where supply chain risk is a material ESG factor; whilst on the short side, we look to take short positions in companies where supply chain policies, risk management and SDG alignment are inferior to peers. Here are some of the characteristics of our current "pre-launch portfolio" with regard to supply chain related metrics:



Source: ECO Advisors

"Pre-launch portfolio" supply chain related metrics CONT.

> The long portfolio has a weighted aggregate score of 6.6 (vs only 3.2 for the short book) viewed via MSCI's ranking on controversial sourcing (1=worst, 10=best). The rating evaluates the extent to which companies face regulatory risk, reputational damage or supply chain disruptions due to sourcing raw materials from areas associated with labour & human rights abuses.

> The long portfolio has a weighted aggregate score of 5.6 (vs only 3.2 for the short book) when viewed via MSCI's ranking on supply chain labour standards (1=worst, 10=best). The rating evaluates the extent to which companies may face reputational risks or production disruption due to sub-standard treatment of workers in the supply chain.

Position call-outs: supply chains

ABERCROMBIE & FITCH (SHORT)

ESG SUPPLY CHAIN LAGGARD:

- ✗ Language barriers, poor living conditions, restrictions on movement and low pay reported at Bengaluru, India in companies supplying A&F
- ✗ Apr 2018: Despite protest from United Students Against Sweatshops, A&F does not sign the renewal accord on fire & building safety in Bangladesh
- ✗ Jun 2018: The Guardian reports that A&F and other brands are still yet to sign up to the new scheme to uphold safety of garment workers in Bangladesh. 250 factories supplying to western brands (including A&F) would now no longer be monitored under the scheme

ADIDAS (LONG)

ESG SUPPLY CHAIN LEADER:

- ✓ Supply chain code of conduct "Workplace standards" covers workers health & safety and provisions to ensure environmentally sound factory operations
- ✓ Innovative rating system for assessment of suppliers - one of very few of its peers to publish their supplier list
- ✓ May 2013: Adidas Group announces the first results of an industry-leading project to improve communication between factory management and workers in its supply chain (as part of its 2012 Sustainability Progress Report)
- ✓ Dec 2016: Leads the push to eradicate forced labour from its global supply chain; ranks highest within 'Know the Chain' for Apparel & Footwear benchmark

APPENDIX: Q4 2018 PRE-LAUNCH STRATEGY PORTFOLIO OVERVIEW

GICS Sector Exposure	Long Exp	Short Exp	Net Exp	Gross Exp
Consumer Discretionary	18.4%	-13.8%	4.6%	32.2%
Consumer Staples	10.5%	-6.2%	4.3%	16.7%
Energy	7.1%	-3.3%	3.8%	10.4%
Financials	12.4%	-8.8%	3.5%	21.2%
Health Care	3.9%	-7.1%	-3.2%	10.9%
Industrials	17.6%	-12.1%	5.5%	29.8%
Information Technology	6.7%	-1.8%	4.9%	8.6%
Materials	13.6%	-12.4%	1.2%	26.0%
Communication Services	6.9%	-5.7%	1.2%	12.6%
Utilities	9.2%	-3.9%	5.3%	13.1%
Total	**106.4%**	**-75.3%**	**31.1%**	**181.6%**

Source: ECO Advisors. Data as of Nov 30, 2018

Regional Exposure	Long Exp	Short Exp	Net Exp	Gross Exp
Asia Pacific ex-Japan/China/HK	9.4%	-9.7%	-0.3%	19.1%
China International	1.8%	-4.4%	-2.6%	6.2%
Hong Kong	2.8%	-0.5%	2.3%	3.2%
Japan	9.0%	-9.0%	0.0%	18.0%
Africa	2.0%	-1.0%	1.0%	3.0%
Western Europe - ex-Germany/France	14.6%	0.0%	14.6%	14.6%
Eastern Europe and Balkans	3.0%	0.0%	3.0%	3.0%
France	2.3%	0.0%	2.3%	2.3%
Germany	5.0%	-3.0%	2.0%	8.0%
Great Britain	3.9%	-1.9%	2.0%	5.8%
Scandinavia	9.3%	0.0%	9.3%	9.3%
Canada	4.0%	-1.8%	2.2%	5.7%
Latin America and Caribbean	4.0%	-8.3%	-4.2%	12.3%
United States	35.4%	-35.7%	-0.3%	71.1%
Total	**106.4%**	**-75.3%**	**31.1%**	**181.6%**

Source: ECO Advisors. Data as of Nov 30, 2018

APPENDIX: Q4 2018 PRE-LAUNCH STRATEGY PORTFOLIO OVERVIEW

Key Portfolio Metrics	Long	Short
No. of positions	121	88
Avg position size	0.88%	-0.86%
Top 10 positions wgt	12.1%	-11.3%

Source: Bloomberg, ECO Advisors. Data as of Nov 30, 2018

Strategy valuation metrics (weighted average)	Long	Short
P/E (1FY)	17.1	16.8
P/B	4.1	3.7
Net Debt / EBITDA	2.2	2.0
Dividend Yield	3.0%	2.7%
Free Cash Flow Yield	3.7%	4.7%
Return on Equity	15.8%	15.2%
Beta Adj Exposure	0.15	
Ann. volatility (ex ante)	4.4%	
1 day VAR (99% monte carlo)	-0.66%	

Source: Bloomberg, ECO Advisors. Data as of Nov 30, 2018

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Optimisation target to reduce L/S portfolio volatility whilst reducing large positive/negative country, sector and market cap exposures.

Long book selection: High or improving ESG characteristics. Short book selection: Low or Deteriorating ESG characteristics.

Information containing any historical information, data or analysis should not be taken as an indication or guarantee of any future performance, analysis, forecast or prediction. Past performance does not guarantee future results.

All backtesting data presented in this presentation has been internally generated and is unaudited. The results of backtesting should not be taken to directly represent the returns of an investment vehicle. Most significantly, our analysis excludes the impact of management and performance fees which would be applied. Furthermore, certain costs such as custody, prime brokerage, legal fees, administrative fees are not included.

Backtested performance is NOT an indicator of future actual results. Our results do NOT represent returns that any investor actually attained. All backtests are gross of fees. Within the backtesting presented in this document, all rebalancing trades are simulated to have been executed at the closing price at the end of each calendar quarter. In practice, transaction prices could differ from these assumptions.

Within the backtesting presented in this presentation, all positions, both long and short are assumed to be fully FX hedged back to portfolio base currency. In reality, even with a fully hedged portfolio, FX hedging and spot transaction costs, and FX exposures generated through position P&L and many other factors could differ significantly from these assumptions.

The selection universe for the long and short book selection consists of over 6000 companies globally, screened for minimum market cap requirements as well as a free float requirements. In accordance with a change in the GICS classification framework and inline with its treatment by our attribution system provider, exposures and attribution data in the Telecommunications sector are shown until 15th June 2018, whereafter exposures and attribution are shown for the Communications sector. Prices, exchange rates, and attribution models used in the backtesting analysis are sourced from MSCI & Bloomberg.

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