

CITY DIFFERENT INVESTMENTS +  
CHANGE FINANCE

# ESG CARBON NEUTRAL STRATEGY

4Q2023



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## DEAR FELLOW INVESTORS,

2023 started grimly, with declining stocks and bonds as interest rates rose. In a welcome reversal, the year ended positively, with the S&P 500 gaining 26.29%, its best annual return since 2021. This turnaround was largely due to the Federal Reserve's policy shift and improving economic indicators.

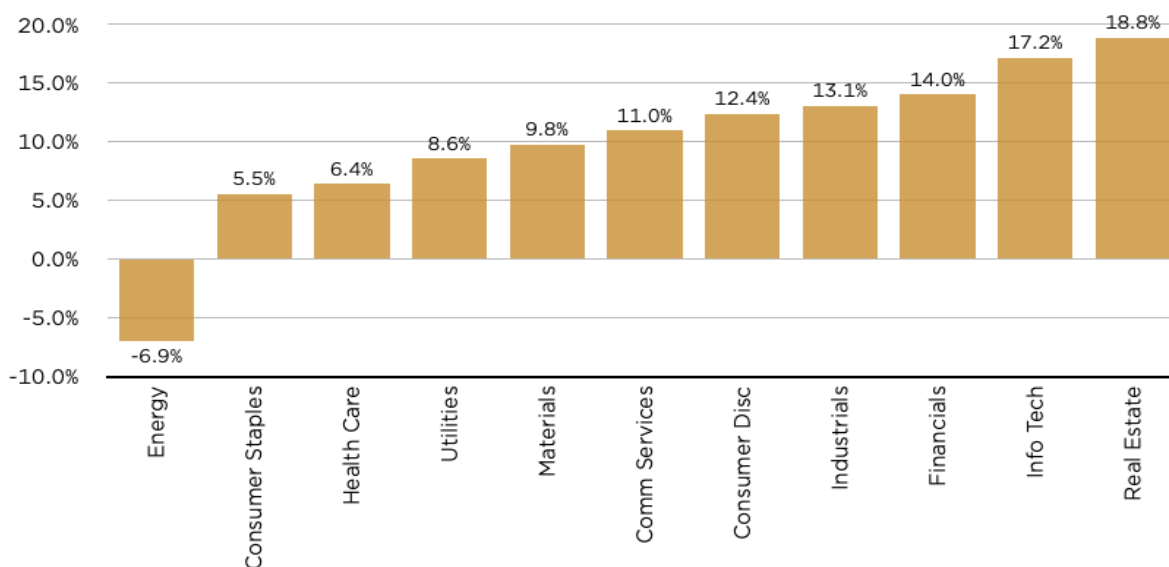
In Q4, the S&P 500 experienced a significant upturn, supported by a continuous decrease in the year-over-year Consumer Price Index, coupled with strong GDP growth in the third quarter, driven by consumer spending and inventory investment.

Equity capital markets saw increased activity in 2023, with a 70% rise in IPOs, follow-ons, blocks, and converts compared to 2022. This boost in Q4 was driven by slowing inflation and expectations of Fed rate cuts in 2024, setting an optimistic tone for the upcoming year.

The City Different + Change Finance ESG Carbon Neutral Strategy capped off 2023 with impressive performance, surpassing the benchmark. During the huge rise in the fourth quarter, the strategy posted a significant 13.55% return, a 1.86% margin over the S&P 500 index. This remarkable achievement was driven by strong performance in the Consumer Discretionary, Consumer Staples, and Information Technology sectors. Notably, the energy sector, excluded from our portfolio, experienced a Q4 decline of 6.93% – losses our fossil-free strategy avoided. While the strategy underperformed the benchmark for the year, it generated positive returns of 24.53%.

Looking forward into 2024, we are encouraged to see that solar power is anticipated to be the leading source of growth in electricity generation in both 2024 and 2025. Energy demand is anticipated to rise at a much slower rate than in 2022 and 2023, potentially impacting supplies as U.S. production continues at a strong pace. And we are hopeful that the signs in Q4 of a soft landing will come to fruition.

### Q4 Performance of US Sectors



\*SOURCE: S&P Dow Jones Indices LLC and/or its affiliates. Data as of December 30, 2023. Past performance is no guarantee of future results. You may not invest directly in an index.



## 4Q 2023 RESULTS

PERFORMANCE, NET	4Q 2023	1-YEAR	SINCE INCEPTION
Carbon Neutral ESG	13.55%	24.53%	28.71%
S&P 500	11.69%	26.29%	27.77%

Source: Bloomberg, City Different Investments. Inception date of the strategy is October 1, 2022. Past performance is no guarantee of future results.

## IMPACT AND ADVOCACY

As we turn the page on 2023, we're excited to share a sneak peek into our upcoming Impact & Advocacy Report. This document will serve as a powerful testament to our unwavering commitment as responsible stewards, wielding our influence to drive positive change within the ESG landscape.

Three Focus Areas:

- 1. Privacy as a Priority:** We champion robust data protection measures, empowering individuals to reclaim control over their digital footprints. We envision a future where personal information is respected, not exploited – and that's the path we're actively paving.
- 2. Political Transparency Under the Microscope:** We strive to hold our portfolio companies accountable by illuminating potential conflicts of interest through increased transparency in political donations. By advocating for responsible governance, we empower investors to align their portfolios with their values and ensure companies stay true to their own.
- 3. Supply Chain Integrity:** In Q4, we initiated engagement with three portfolio companies to shed light on their supply chains and potential links to Uyghur forced labor. Integrity and ethical sourcing are pillars of our approach, and we remain resolute in holding our portfolio companies accountable when necessary.

This preview provides just a taste of the comprehensive report to come. It will showcase the full breadth of our initiatives and the collective impact we're driving. Together, along with our collaborators, we're building bridges of progress and generating a ripple effect of positive change that extends across the global landscape.

## SUSTAINABILITY AND ESG

Navigating the intricate world of Environmental, Social, and Governance (ESG) standards can be daunting. Investors and businesses grapple with varied metrics and frameworks, hindering their ability to make informed decisions. However, the beginning of a huge shift is imminent: with standardized ESG metrics legislation. This should start to reshape the landscape, paving the way for more transparent, comparable, and impactful assessments.

Investors stand to benefit immensely. Standardized metrics will decode some of the complexities of sustainable investments, allowing for clear comparisons and informed choices. This is crucial given the growing investor interest in sustainability and the demand for transparent data.

Businesses, too, will find some relief. Standardized metrics mean simplified reporting, reducing administrative burdens, and allowing a sharper focus on progress. Clear benchmarks built on these metrics can enhance a company's reputation and financial performance.

However, embracing simplicity requires acknowledging the risks. Oversimplification may mask nuances, potentially overlooking crucial ESG areas or hindering innovation. Standardization could be vulnerable to industry influence, such as lobbying, skewing metrics, and undermining progress.

So, the path forward demands a nuanced approach. We must embrace standardized metrics as a starting point, not a finish line. Careful attention to data granularity, inclusion of diverse voices, and robust safeguards against lobbying are crucial. Only then can we unlock the true power of ESG – not just through data clarity, but by fostering qualitative assessments and innovative solutions. We hope this will start the shift to build a future where responsible investments not only shine with measurable impact, but also contribute to a brighter, more sustainable tomorrow.

## LOOKING FORWARD

The record-breaking heat of 2023 casts a long shadow on 2024. Climate predictions are beginning to shout the same warnings. It's time to move beyond whispers. We must act, and not just for the planet, but for our portfolios. Studies show that over the long term ESG investing can yield greater returns. ESG is data, not politics. Change Finance exists to align profit and planet. Our fossil free approach supports renewable energy and regenerative agriculture, not fast fossil fuel returns. Our planet isn't a gamble – it's the stage for our shared future. In 2024, we hope you make sure your investments play a role in its bright, sustainable next act. We think it is time for investors to take a closer look at their portfolios to ensure alignment with their goals. Invest in green, not in greed. 2024 is the year to turn whispers into action. Every choice you make toward sustainability is a standing ovation for a healthier Earth, which benefits us all.



## PARTING WORDS

We believe that our uncompromising commitment to Environmental, Social, and Governance (ESG) principles is not just the right thing to do, but also a key driver of long-term success.

Looking ahead to 2024, we are excited to continue building upon this foundation. We are proud of the positive impact we are making, and we remain steadfast in our conviction that ESG investing can be a powerful force for good, generating robust returns while aligning with our values. We are confident that by staying true to our principles and fostering meaningful engagement, we can achieve even greater progress in the year ahead.

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## IMPORTANT DISCLOSURES

The City Different + Change Finance Carbon Neutral ESG Composite includes all discretionary portfolios that are managed to City Different Investments' Change Finance Carbon Neutral ESG strategy (the "Strategy"). The objective of the Strategy is to invest in a diversified, equal-weighted portfolio of 100 mid and large cap US companies, seeking to maximize performance while promoting a more just and sustainable world. The Strategy seeks to achieve this through a rigorous, proprietary ESG process, active shareholder engagement, and a first-of-its-kind approach to carbon neutrality through grassland restoration. Inception date of the Strategy is October 1, 2022.

The basis for the Strategy is the AXS Change Finance ESG ETF (ticker CHGX), which serves as the model for holdings. At any given time, holdings and weightings in the portfolio will vary from those of CHGX. Statements made in this letter are specific to efforts and opinions of Change Finance and the ESG Carbon Neutral strategy and are not intended to imply that City Different Investments applies the same views and approach to all the firm's investment strategies. More information available at [axsinvestments.com/axs-change-finance-esg-etf/](https://axsinvestments.com/axs-change-finance-esg-etf/).

Environmental, Social, and Governance (ESG): Environmental criteria consider how a company performs as a steward of nature. Social criteria examine how the company manages relationships with employees, suppliers, customers, and the communities where it operates. Governance deals with a company's leadership, executive pay, audits, internal controls, and shareholder rights. ESG Investing Risk: The Strategy's ESG policy could cause it to make or avoid investments that could result in the portfolio underperforming similar strategies that do not have such policies.

An investment in the Strategy is subject to certain risks. ESG investing can be highly personal and reflective of an individual investor's beliefs on sustainability. As a result, the securities deemed eligible may not reflect the beliefs and values of any particular investor and may not exhibit positive or favorable ESG characteristics. The evaluation of companies for ESG screening is dependent on the reporting of ESG data by the companies. Successful application of the screens will depend on the data provider and analysis of ESG data. The value of an investment, and income generated (if any) may fall as well as rise and is not guaranteed. Equities may decline in value due to both real and perceived general market, economic and industry conditions. The Strategy could be more volatile than the performance of more diversified portfolios. Change Finance has functioned as the sub-advisor for the Strategy since composite inception and is responsible for the Strategy's methodology, security selection, commentary, carbon neutral certification, proxy voting and shareholder advocacy efforts. City Different Investments offers clients separately managed accounts with the Strategy's holdings that can be tailored, initiates all trades and provides performance reporting amongst other administrative duties.

Carbon Neutral Certification: Ethos performs an independent analysis of the Strategy's carbon footprint and carbon credits (offsets) to verify whether the Strategy is carbon neutral during a specified period. The carbon footprint consists of verified Scope 1 and Scope 2 emissions of every holding of the Strategy. Ethos defines the carbon footprint of a strategy as the total tons of Scope 1 and Scope 2 CO<sub>2</sub> emissions of its holdings multiplied by the strategy's percentage ownership of those holdings. Percentage ownership is based on the market value of the strategy's shares divided by the total market value of the holdings. While Ethos researches and models Scope 3 emissions for every holding, the company does not consider Scope 3 for fund-level certification. This is due to limitations with Scope 3 data, including: lack of standardized reporting methodology by companies; low coverage of companies reporting Scope 3 emissions; and, likely overlap of Scope 3 emissions across company value chains. As part of the Carbon Neutral Certification, Ethos requires funds to submit proof of purchase of carbon credits from a list of approved providers of carbon credits. When information is not available the following modeling formula used is: Expected emissions = peer-average carbon intensity (CO<sub>2</sub> per \$M revenue) \* \$M revenue. EthosESG audits this estimation and will address discrepancies should they arise. Emissions data is limited by the voluntary disclosure by individual companies and is not independently audited. Change Finance and EthosESG make every effort to ensure data is accurate but cannot guarantee absolute carbon neutrality.

Carbon Sequestration: Change Finance utilizes Grassroots Carbon to purchase Carbon Sequestration Credits for its Carbon Neutral Certification. Carbon sequestration numbers are updated quarterly and reflect carbon offset credits purchased year to date. Verity analyzes the Strategy's carbon footprint quarterly and that analysis is used to purchase credits. Grassroots Carbon certifies and audits carbon capture by taking measurements performed by an unaffiliated third party based on actual 3 feet deep measurements conducted after rigorous stratification in accordance with Verra VMD0021. More information available from [buildgrassroots.com](https://buildgrassroots.com)

Returns presented are reduced by all transaction costs and management fees. Certain accounts are charged management fees in arrears and those fees are reflected when fees are paid. Actual fees may vary depending upon, among other things, the applicable fee schedule and portfolio size. Performance of any particular client account may differ from the strategy presented depending on size of the account, timing of funding of the account, contributions or withdrawals to the account, and custodian chosen. Client portfolios are managed with individual tax considerations in mind.

The S&P 500 is widely regarded as the best single gauge of large-cap U.S. equities. The index includes 500 leading companies and covers approximately 80% of available market capitalization. The underlying exposures, and specifically the securities in the selected benchmark index or indices, may vary substantially from that of the strategy presented.

The securities discussed in this presentation may not be suitable for all investors. Past performance is not an indication of future performance and is no guarantee that losses will not occur in the future. The value of an investment, and income generated (if any) may fall as well as rise and is not guaranteed. Investors may not get back the full amount invested and may lose the entire amount invested. Diversification does not assure a profit or protect against loss. Data herein is reflected in USD unless specified otherwise.

The views expressed herein are solely the opinions of Change Finance and City Different Investments (the "Managers"). Although the statements of fact and data in this report have been obtained from, and are based upon, sources that we believe to be reliable, we do not guarantee their accuracy, and any such information may be incomplete or condensed. The Managers have not independently verified third-party sourced information and data. This communication is intended for informational purposes only and does not constitute a solicitation to invest money nor a recommendation to buy or sell certain securities and should not be relied upon for, accounting, legal, or tax advice.

Opinions and statements of financial market trends that are based on market conditions constitute our judgment and are subject to change without notice. Historic market trends are not reliable indicators of actual future market behavior. This material may contain projections or other forward-looking statements regarding future events, targets or expectations, and is only current as of the date indicated. There is no assurance that such events or targets will be achieved and may be significantly different than that shown here. The information presented, including statements concerning financial market trends, is based on current market conditions, which will fluctuate and may be superseded by subsequent market events or for other reasons. Although the assumptions underlying the forward-looking statements that may be contained herein are believed to be reasonable, they can be affected by inaccurate assumptions or by known or unknown risks and uncertainties. The Managers assume no duty to update any analysis contained herein.

### JURISDICTIONAL LIMITATIONS

City Different Investments may only transact business or provide investment advice in those states and jurisdictions where it is authorized to do so. The information contained herein does not represent personal or customized investment advice. City Different will only render investment advice under the terms of a legal agreement between parties.

A principal and officer of City Different Investments holds a non-controlling minority interest in the sub-advisor that City Different appoints for the Carbon Neutral ESG strategy. Further, advisory fees are shared between City Different and the sub-advisor. When a client is shown and agrees to employ this strategy, this specific conflict of interest is disclosed to the client.

A copy of City Different's current written disclosure statement discussing our advisory services and fees is available upon request. Disclosures may also be found on our website at [citydifferentinvestments.com/terms-privacy/](https://citydifferentinvestments.com/terms-privacy/).