Introduction: I'm driving in my car, I turn on the radio. How bet you let me drive. Oh, no, no, no, no. Who's going to drive you home? Honey, please, I'll do the driving. Drive on. Excuse me, I want to drive. It drives me crazy. It's the question that drives us. You drive me crazy. This is The Drive to the Close. ... that funky music will drive us till the dawn. On Bloomberg Radio.

Carol Masser: All right everybody, we've got just about 17 and a half minutes left in today's trading session. Getting ready to wrap up on this Wednesday. Remember, it's a holiday, shortened trading week. We do get the jobs report on Friday, but financial markets here in the US are going to be closed for the Good Friday holiday. Having said that, bouncing around here on the equity side, gain in the Dow, just about a quarter of a percent higher, as Charlie mentioned, tech stocks in particular. The NASDAQ down, the most hundred percentage basis, but it's really a big focus on what's going on in the treasury trade right now and that two-year note. Just a reminder, 378, 10 year note with the yield of 329.

So let's get to it with our Drive to the Close guest, and with Maddi and me is Bill Davis, portfolio manager at Hennessy Funds. Bill, specifically managing the Hennessy stance, ESG large cap ETF ticker is STNC fund up roughly 4% year-to-date. Bill with us now on the phone from Boston. Bill, great to have you here on this Wednesday. Tell us a little bit about the fund, and correct me if I'm wrong, but I think you guys made the debut. Was it like when we were kind of coming out of the pandemic?

Bill Davis: Yeah. Hey, Carol and Maddi. That's right. We actually launched the fund in the first quarter of 2021. So STNC is a ICE listed, actively managed ESG large cap ETF. And yeah, and we've basically got two years in the actual ETF itself.

Carol Masser: And assets under management, what kind of flows have you been seeing? And I'm really curious in particular the last, let's say six months or so and more recently, just to get an idea of investor sentiment.

Bill Davis: Yeah, I would say that ours have, well, so last year we basically, even though the market was down 18%, I think we were down 12% and change, and our flows went up by about 10%. So we've got about 45 million in the fund today. We are expecting some inflows, some actually potentially significant ones really, just based on track record and outperformance and risk management. And I think this is a market where risk management matters.

Maddi Mills: I want to talk about the fact that it is an ESG fund, and Carol has flagged this, and we've talked about it a lot. ESG funds falling out of favor a bit, garnering more and more scrutiny. The absence of consistency in ESG classification, showing the hurdles investors face when trying to allocate capital, especially given these macro headwinds. But against that backdrop, MSCI has said, it's planning to dramatically reduce the number of funds it gives top ratings. And I wonder how you're feeling about those changes that are going to take effect by the end of this month?

Carol Masser: And are you feeling any impact as a result?

Bill Davis: Yeah, so no. Short answer, not feeling any impact. I think that ESG as a political wedge issue is largely a dead end as a sort of an investor sentiment issue. I think that there are a wide swath of investors, institutional high net worth, ultra-high net worth, mass affluent, millennial, people with $10 to invest and people with a hundred million to invest who care about these issues or they don't, right? So I mean, I get that there's people that don't care about them. But the people that do are not being dissuaded by congressional inquiries into ESG. We have not seen any effect whatsoever. And by the way, I actually do welcome the idea of additional scrutiny. There are too many products that are either me too, or just lack authenticity. And I do think a weeding out of the general landscape would be a very good idea.

Carol Masser: Well, and part of the big problem is every ESG fund, it's not apples to apples. There's inconsistency, to say the least, in terms of classification. So, we want to get into your picks, but how do you define ESG? You're an actively managed fund. So what says ESG to you, that requires you then-

Bill Davis: Yeah, no, no, no, really good, really good point. And by the way, I will also say there are a lot of valid approaches to ESG that are very different from what we're doing. I could make an argument that you could have an ESG product that invests in energy transition. So that's mostly investing in today's oil and gas companies, trying to pick the winners and losers in the transition to a lower carbon economy. Our particular product, this product STNC, is fossil free. It's weapons free. It's tobacco free.

And really then what we look to do is invest in the intersection of good ESG and good fundamentals across as much of the economy. And I should point out our market universe is the S&P 500, so we're basically US large cap, but we happen to be overweight industrials, frequently. And so we are not afraid to invest in segments of the economy within which the transition is not only important, but there are going to be inherent risks for companies and their investors when they aren't being ambitious enough in that transition. And so we think that there's real opportunity for investors to generate alpha there.

Carol Masser: So talk to us some names here and what your KPIs are for those stock picks.

Bill Davis: So we have 24 KPIs. I'm going to start by saying that.

Maddi Mills: Key performance indicators for everybody. Go ahead.

Bill Davis: Key performance indicators. Sometimes we call them material risk factors because I think really what we're trying to do is, on an industry group basis, identify those material risk factors and then weight them according to importance. So a practical example of that is automotive products. We get asked pretty frequently about Tesla. And we try not to let personal feelings get involved in decision making, and what I will tell you is Tesla is very good at certain things like low carbon or carbon transition, but it happens to be very bad at a lot of the S&G stuff like governance, injuries and fatalities, human rights, worker rights, those things. In the end of the day, Tesla sometimes is in our portfolio because it happens to be in the top 50% of its industry group, largely as a result of what it's good at and as a result of the weighting of what it's good at. And that's essentially how the KPIs work for us. And some are E, and some are S, and some are G.

Carol Masser: Unfortunately we only have about 40 seconds left here. Pick your name. MasterCard. We know you like. You've also recently taken positions in GE and Alphabet. You can pick one and just tell us why, in again, only about 35, 40 seconds.

Bill Davis: Yeah, well, I'll take GE as an example. I mentioned sectors that, we tend to like industrials, we tend to like healthcare. We happen to be overweight in financials for the first time, but GE is kind of an interesting name because it plays in both industrials and then to a certain extent healthcare. It's a strong ESG name and there is a very strong signal right now around news sentiment, which is not typically a big signal for us, but fundamentally we like it as well and we think it's a good time-

Carol Masser: I'd be thinking about Catalyst. I mean, shares of GE, by the way, they're up about 43, almost 44% so far here in 2023. Great conversation. Bill Davis. Thank you. Come back soon. Portfolio manager at Hennessy Funds, joining Maddi and me on the phone from Boston.

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