TRUVALUE LABS
A FACTSET Company

Research Brief

Democracy Disrupted & ESG Risk

A crisis for U.S. democratic institutions offers a chance to re-assess risk for social firms

Jan. 15, 2021

ESG signals demonstrate the connection between company action and societal struggle
Truvalue Labs data tracks company performance within ESG categories, and this data shows that societal events are deeply interrelated with company actions. Two examples of that are Truvalue Labs' Coronavirus Monitor, which tracks company actions related to the pandemic, and a research note on racial justice following the George Floyd protests, which tracked company responses. The chart below shows that over a turbulent 2020, "S" volume averaged 43.8% of total ESG data.

2021: A decisive moment for the U.S. and for social media firms
A third example is the uprising this month by supporters of U.S. President Donald Trump who attended a rally where he spoke. The crowd then marched to the Capitol, attacked police, invaded the Capitol Building, and delayed the confirmation of electoral college results, leading to Trump's second impeachment.

In a July 2020 research brief, we noted geopolitical risks are uniquely relevant for social media firms and "socials have unique role in society as the infrastructure of the internet age." That brief considered the question of whether social media might interfere with a second U.S. presidential election in a row, and wrote: "We can't know that today, but it is hard to imagine a business with more significant tail risks than social media, or with risks more inextricably linked to ESG topics."
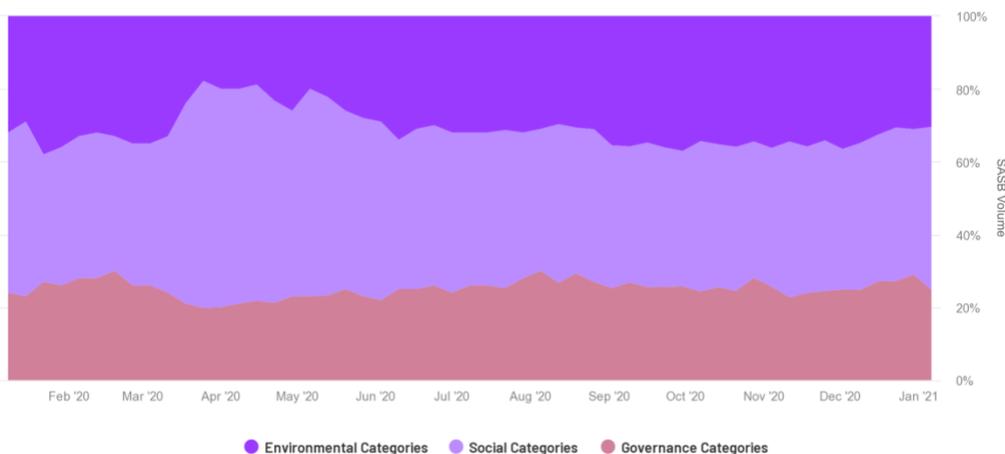
The tail risks of social media firms are even more conspicuous six months on.

ESG "Social" risks critical for social media firms that represent large chunk of benchmarks
The challenges of running a social media platform existed before Trump and will continue long after. These unique risks threaten the reputations of some of the world's most valuable companies and affect billions of people on and off these platforms. It is critical for investors to focus on tail risks entwined with these businesses, as social firms make up large chunks of benchmarks.

"Social" in focus: Capitol insurrection caps off a year of "S" dominance in ESG data

Volume Mix by Environmental, Social and Governance Categories

● Environmental Categories ● Social Categories ● Governance Categories

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Source: Truvalue Labs Coronavirus Monitor

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Research Briefs highlight material events that move Truvalue Labs scores.

Social media firms entail unique risks captured in ESG Social categories including Customer Privacy, Data Security, Selling Practices & Product Labeling, and more

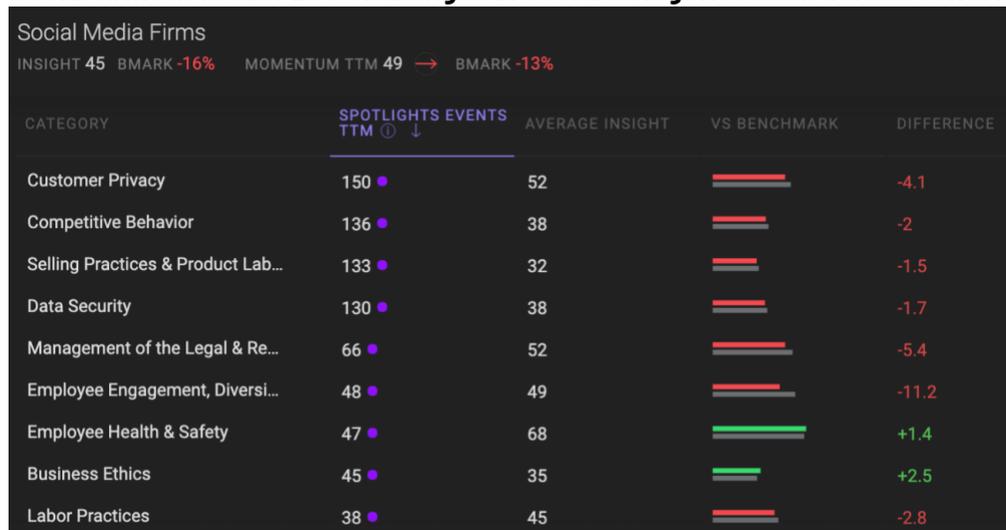| ISIN	Industry	Ticker	Company	Platforms
JP3967200001	E-Commerce	4755	Rakuten Inc	Viber
US9485961018	Internet Media & Services	WB	Weibo Corp	Sina Weibo
US90184L1026	Internet Media & Services	TWTR	Twitter Inc	Twitter
PCTIKTOK	Internet Media & Services		ByteDance	TikTok
US83304A1060	Internet Media & Services	SNAP	Snap Inc	Snapchat
US30303M1027	Internet Media & Services	FB	Facebook Inc	Facebook, Instagram, Whatsapp
US0567521085	Internet Media & Services	BIDU	Baidu Inc	Baidu Space, Baidu Tieba
US02079K1079	Internet Media & Services	GOOG	Alphabet Inc	Youtube
KR7035420009	Internet Media & Services	35420	Naver Corp	Naver Café, Line
US46591M1099	Internet Media & Services		JOYY Inc	YY
US5949181045	Software & IT Services	LNKD	Microsoft Corp	LinkedIn
PCREDDIT	Software & IT Services		Reddit, Inc	Reddit
KYG875721717	Software & IT Services	2988	Tencent Holdings Ltd	WeChat, Qzone, QQ
US72352L1061	Software & IT Services	PINS	Pinterest Inc	Pinterest
US5603172082	Software & IT Services		Mail.ru Group	Vkontakte
US92343V1044	Telecommunications Services	VZ	Verizon Communications Inc	Tumblr

Source: Truvalue Labs

Social media platforms can be categorized to different industries, depending on the classification system. The Sustainability Accounting Standards Board (SASB) in most cases considers them as either Internet Media & Services companies or as Software & IT Services. There are exceptions. E-Commerce player Rakuten owns the platform Viber, and telecom giant Verizon owns Tumblr.

For that reason, we've put together a portfolio of top global social media players to analyze the cohort.

As seen in Truvalue's Platform (see table below), the cohort collectively underperforms a U.S. large cap benchmark, Solactive's SOLUSLCG, on many ESG categories. This is true for most of the cohort's highest-volume categories, including most of the social categories discussed in this brief.

Social firms in focus: ESG challenges in Social categories seen across cohort

Social Media Firms

INSIGHT **45** BMARK **-16%**   MOMENTUM TTM **49** → BMARK **-13%**

CATEGORY	SPOTLIGHTS EVENTS TTM ⓘ ↓	AVERAGE INSIGHT	VS BENCHMARK	DIFFERENCE
Customer Privacy	150 ●	52		-4.1
Competitive Behavior	136 ●	38		-2
Selling Practices & Product Lab...	133 ●	32		-1.5
Data Security	130 ●	38		-1.7
Management of the Legal & Re...	66 ●	52		-5.4
Employee Engagement, Diversi...	48 ●	49		-11.2
Employee Health & Safety	47 ●	68		+1.4
Business Ethics	45 ●	35		+2.5
Labor Practices	38 ●	45		-2.8

Source: Truvalue Labs Platform portfolio view, January 2021

On the next page you can find a list of key events for top tech firms related to the Capitol invasion, along with a list of social media firms investors should evaluate for ESG risk in 2021 and beyond.

Algorithmically detected Spotlight Events show link between Capitol Hill uprising and top tech firms

Company	Key Spotlight
Alphabet Inc	Facebook, Google and Microsoft freeze PAC contributions in the wake of Capitol siege
Amazon.com Inc	Like Google and Apple, Amazon cuts ties to the conservative Parler network
Apple Inc	Google Kicks Parler Off Its App Store, And Apple May Soon...
Facebook Inc	Amid Capitol violence, Facebook removes Trump video, Twitter locks account
Microsoft Corp	Facebook, Google, Microsoft halt political contributions after U.S. Capitol riot
Snap Inc	Twitter, Facebook, Instagram and Snapchat lock out Trump in wake of 'unprecedented' and 'violent' protests
Twitter Inc	Facebook, Twitter, YouTube remove Trump video on Capitol riots

Source: Truvalue Labs

Spotlight Events, identified on a daily basis, allow investors to drill down to key ESG-related events. As a data product, they can also be analyzed in spreadsheets, as we did with events related to the attack on the U.S. Congress.

To look for companies related to the events at the Capitol, we filtered all YTD Spotlight Events for a large-cap U.S. benchmark, Solactive's SOLUSLCG index. We then analyzed the events by ESG category to identify category relevance for corporations to allow ongoing monitoring by investors.

ESG categories seen in Capitol-related coverage of large-cap U.S. benchmark constituents
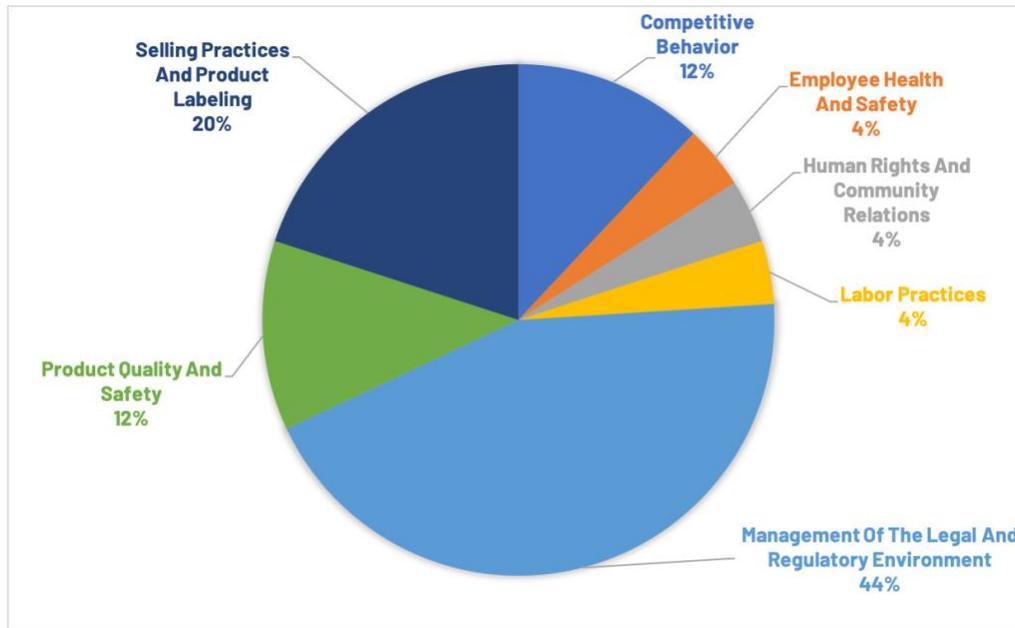
Source: Truvalue Labs

These events related to the Capitol invasion received ESG category tags within Social categories, as seen in the chart above. For the group of Spotlights, Management of the Legal and Regulatory Environment makes up the plurality of Spotlight Events identified in the first two weeks of January.

Those events mainly related to companies stopping contributions to GOP politicians who voted against certifying Biden's election, or more generally paused political donations:

- Facebook, Google and Microsoft freeze PAC contributions in the wake of Capitol siege – *CNET*
- Companies stop political spending after violent Capitol riots: 'They've been playing with fire' - *Morningstar.com*

The ESG category Product Quality & Safety relates in this case to Google, Apple, and Amazon cutting business ties with the conservative social platform Parler, with Amazon firing them as a customer of its AWS cloud computing services.

Selling Practices & Product Labelling in the case of social firms refers to companies' practices pertaining to their core content – the information shared on the platforms – and the extent to which misinformation is labelled or banned outright.

While most social platforms hadn't restricted Trump's speech – or had only done so with notes on disputed claims – the insurrection in the Capitol prompted Google, Facebook, Snapchat and Twitter to "deplatform" the president. It's an action that infuriates Trump supporters and didn't come soon enough for critics of the president, which illustrates the "rock and a hard place" position social firms occupy in a partisan era.

The issue, and ESG category, was highlighted in a July research note from Truvalue Labs that discussed the progression of the issue of social media and election interference since the 2016 cycle. The most relevant section is here:

As discussed in July research note, Selling Practices & Product Labeling was under the microscope for Facebook and Twitter as 2020 election unfolds

While historically Facebook and Twitter both receive huge amounts of attention in these areas, 2020 has been a banner year. A key category is Selling Practices and Product Labeling, an ESG category that captures discussion of issues around how the content on social platforms is or is not regulated.

First, the product labeling: Twitter has in recent months attached warnings to President Donald Trump's famously freewheeling tweets. The tweets have been hidden with a warning label, including when Trump tweeted what *The Washington Post* called "misleading information about mail-in ballots" as well as a manipulated video.

For obvious reasons, there are huge risks involved with product labeling work that involves fact-checking national leaders. Trump fans have taken offense; adverse regulatory attitudes could result; and the risks of not censoring could be even greater if the president or others do promote misinformation with consequential results.

Four years after the 2016 election, Facebook's reputation has been marred by the Cambridge Analytica scandal, in which the U.K. firm bought access to 87 million Facebook profiles and used information about them to target Americans with ads portraying a "Crooked Hillary" Clinton.

In July 2019, Facebook agreed to pay $5 billion to settle an investigation by the U.S. Federal Trade Commission, which imposed new privacy restrictions. It still faces class action lawsuits that could do further damage. Yet there is still much further that Facebook's reputation could fall, as its continuing advertiser targeting scheme isn't fully understood by users.
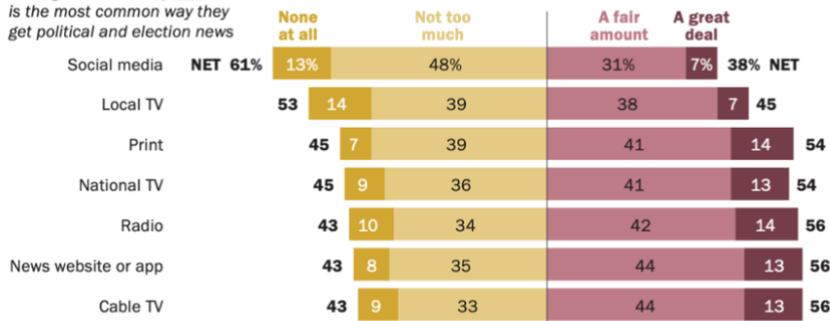
In the past year Facebook did not restrict Trump postings for most of the election cycle and received intense criticism from employees and outside activists as a result. Facebook employees working remotely in the COVID-19 era held a virtual walkout in June. Facebook did remove a Trump campaign ad later in the month because of the presence of an upside-down red triangle symbol used by Nazis; the Trump campaign called it an emoji.

Three quarters of adults who use Facebook do not know that their interests are classified for advertiser use, according to a Pew poll from late 2018, after Cambridge Analytica made headlines and Mark Zuckerberg testified before Congress. More than half told *Pew Research Center* they are not comfortable with Facebook compiling the data. Despite those results, Facebook is the pre-eminent pure-play social platform in the U.S. and globally, with more than 2.5 billion monthly active users in 2020.

Those who get most of their political news on social media have less faith in the public to accept election results

% of U.S. adults who have _____ confidence in the American people to accept election results regardless of who wins

Among those who say _____ is the most common way they get political and election news

		None at all	Not too much	A fair amount	A great deal	
Social media	NET 61%	13%	48%	31%	7%	38% NET
Local TV	53	14	39	38	7	45
Print	45	7	39	41	14	54
National TV	45	9	36	41	13	54
Radio	43	10	34	42	14	56
News website or app	43	8	35	44	13	56
Cable TV	43	9	33	44	13	56

Note: Respondents who did not give an answer are not shown.
Source: Survey of U.S. adults conducted Oct. 29-Nov. 11, 2019.

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As seen in this 2019 chart from Pew Research, Americans who get news primarily from social media have the least faith that Americans will accept the results of the upcoming election.

That survey proved sadly prescient as many core supporters of the president have not accepted the results of the election, spurred on by claims of fraud that he has consistently published on social media platforms until the Capitol insurrection and the shutdowns of his accounts.

Four years after the 2016 election, Facebook and peers still are offering plenty of fodder to critics. As seen in the above chart from *Pew Research*, Americans who get news primarily from social media have the least faith that Americans will accept the results of the upcoming election, an ominous sign of discord in the body politic.

Looking at Capitol-related Spotlight Events for U.S. large-cap firms through a U.N. Sustainable Development Goals lens
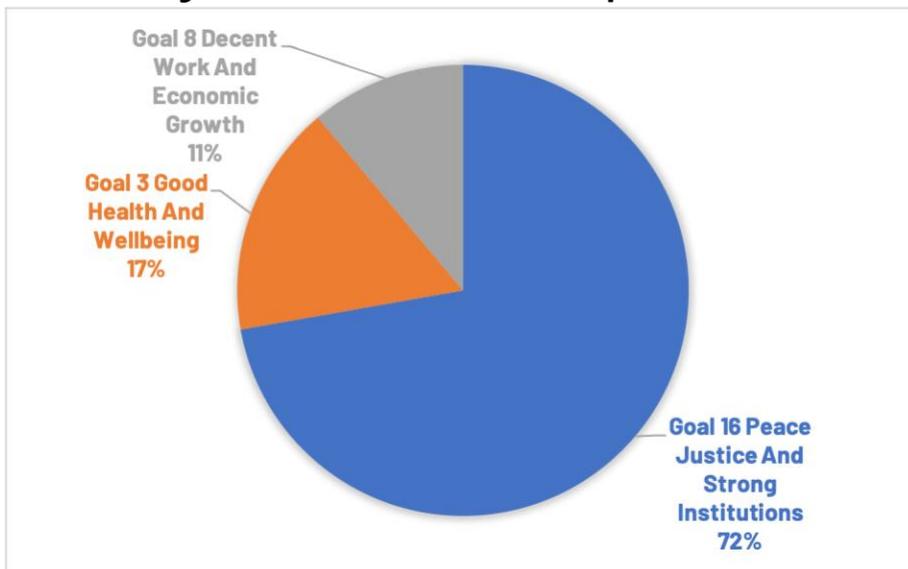
Source: Truvalue Labs

We performed the same analysis with U.N. SDG data for companies as the ESG breakdown described earlier. The U.N.'s Sustainable Development Goals are meant for sovereign states and international cooperation. Truvalue Labs aimed to map ESG topics to show how company actions can both help and hurt the Goals.

For Goal 16, there are many ways that companies can affect war and peace, or the strength of democratic institutions. These can include topics such as:

- Sanctions violations, money-laundering, bribery, corruption
- Data privacy, obeying rules like GDPR, data security, and surveillance
- Market manipulation, advertising concerns, anti-competitive behavior

For each item within the list, company behavior could make the world less just and more lawless not just in an immediate impact on consumers but by eroding social norms or creating incentives for less conscientious government.

With that in mind, here are a selection of headlines for recent Spotlight Events associated with the insurrection in D.C. which drive the point home and illustrate how investors can track company behavior with Truvalue Labs' SDG dataset.

- Amazon, Apple, and Google cut off Parler, an app that attracted Trump supporters
- Amid Capitol violence, Facebook removes Trump video, Twitter locks account
- Companies stop political spending after violent Capitol riots: 'They've been playing with fire'
- Facebook, Google, Microsoft halt political contributions after U.S. Capitol riot
- Facebook, Twitter, YouTube remove Trump video on Capitol riots
- JPMorgan, Citigroup Join US Corporations Halting Political Donations After Capitol Riot
- JPMorgan, Goldman Sachs Join US Corporations Halting Political Donations After Capitol Riot
- Marriott will suspend donations to U.S. lawmakers who voted against Biden certification
- PayPal blocks site that helped raise funds for those who attended Capitol violence
- Twitter and Facebook lock Trump's accounts over video message
- Twitter, Facebook, Instagram and Snapchat lock out Trump in wake of 'unprecedented' and 'violent' protests
- US banks halt political donations after Capitol riot

Outlook

To sum up, timely ESG data has shown that throughout a year of struggle, "S" topics have dominated ESG data volume for Truvalue Labs' universe of companies, averaging 43.8% through 2020.

In a world where the public square is transitioning from partly online to mostly online, corporations which host social platforms must manage Social Risk in real-time, and with a proactive approach, as it is linked to their bottom line and overall societal wellbeing.

Investors should assess social media firms weighting within overall holdings and consider the unique set of risks made clear by timely ESG data. These topics come up with greater frequency for social firms than the universe of companies Truvalue Labs tracks, and the firms' ESG scores underperform the S&P 500.

Tail risks presented by social media and internet firms are not unknown, and should be closely watched by asset managers, asset owners, and activist investors.

About Truvalue Labs

Truvalue Labs, a FactSet company, is the first company to apply AI to uncover timely ESG data on a variety of asset classes. The company's mission is to deliver increased transparency to investment professionals by providing data and analytics that go beyond traditional fundamentals.

Visit **www.truvaluelabs.com** to learn more about the SaaS and API products.