



MISSION-ALIGNED INVESTING™

DEFINE | APPROACH | IMPLEMENT | MEASURE

DiMEO SCHNEIDER
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[APPROACH]

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In our first paper in this series we focused on defining mission-aligned investing™. In our second installment, **Mission-Aligned Investing™: Approach** we seek to answer the question: “Which mission-aligned approach is right for you?”

Mission-Aligned Investing™ Today

Whether the terminology is socially responsible, mission-aligned, sustainable or ESG, the goal remains to align the mission with financial capital. More today than ever, investors are passionate about a number of issues and are eager to incorporate their values within their investment portfolios. Building a long-term portfolio incorporating attractive risk and return characteristics while aligning with investors’ personal values is of ever-increasing desire.

The heightened awareness surrounding issues like climate change, the environment, religious beliefs, corporate concerns and workplace diversity make companies today popular targets for the growing number of mission-aligned investment strategies. In fact, the US SIF Foundation noted that more than **\$8.7 trillion¹** was invested in sustainable, responsible and impact invested portfolios in the U.S. at the end of 2016, making up **one-fifth** of all assets under professional management. This marks a **33 percent increase** since 2014.

With such growth, it is imperative that investors interested in mission-alignment focus their discussion on defining their mission prior to investing. A well-defined mission empowers investors to customize their portfolio to limit risk, maximize return and ultimately incorporate their values to their investment portfolios.

THE MISSION-ALIGNMENT DECISION

EXCLUSION: The exclusion of sectors or individual securities that are counter to an investors’ defined values.

INTEGRATION: A combination of exclusion and inclusion helping to remove the “bad actors” and emphasizing the “good actors”.

IMPACT INVESTING: Targeted investment in companies or funds, often private, intended to generate social or environmental impact alongside financial return.

PROXY VOTING: Exercise your right as an owner by voting your proxies in accordance with your proxy voting guidelines.

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The Mission-Alignment Decision Process

The difficulty with mission-aligned investing™ today is people do not know what is available to them. This type of investing comes in many flavors and therefore should be a customized style. For those that do not have a well-defined mission upfront, the task of satisfying the underlying motivations becomes challenging.

While underlying values vary in magnitude and specificity from person-to-person and group-to-group, the question ultimately comes down to what is the best way to implement your values. Mission-aligned investors utilize a variety of methods, which can generally be implemented in four ways:



EXCLUSION of certain securities. Faith-based organizations strive to maintain a specific “sin-free” portfolio and were among the first to adopt this approach. The process of avoiding securities that counter specific beliefs can be an effective tool. Two primary drawbacks are (1) defining the “bad actors” and (2) the resulting influence on what investments are available to them.

→ **Best suited for:** Investors with very specific guidelines that need to restrict securities diametrically opposed to their mission.



INTEGRATION is a hybrid of the negative and a positive screen technique. By establishing certain sector and industry parameters, an investor can take a pragmatic approach to aligning values and investment returns. For example, if an investor wants a clean energy portfolio, instead of screening out all companies for coal and oil, only those least aligned with their mission would be removed and renewable energy companies would be included. Thus, the restrictive screen casts a wide enough net to support all companies that are “moving the needle” on a particular issue or value.

→ **Best suited for:** Investors seeking to emphasize securities further aligned with their mission and mitigate those that are not.



IMPACT INVESTING is arguably the most targeted route of investing when it comes to a specific value-set or cause. Impact investing targets certain organizations, funds or securities that align with their mission alongside financial return. This is often done with private investments so the focus on the impact is made clear. Many times public companies have various divisions or competing social interests within an organization, so an investor’s ability to target impact with public securities can be limited.

→ **Best suited for:** Investors seeking to directly affect or further their specific goals or objectives which also have the ability to access private markets.

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PROXY VOTING allows the investor the most direct avenue with which to voice their values. Given that shareholder engagements hold no legally required action from a company, a vote allows an investor to directly engage with the company on its operations, corporate governance and at times its social responsibility.

→ **Best suited for:** Investors interested in using current ownership in public securities with like-minded interests to proactively pursue change at those individual companies.

So how do you choose? Certainly you are not restricted to picking just one approach. There is no one-size-fits-all approach when it comes to values-based investing, but by thoughtfully engaging upfront to identify the motivations behind the values will both help inform policy language and ultimately portfolio implementation. Translating values into investment language is a critical step for success.

As we will outline in the installments that follow, each mission-aligned investing™ option has its own strengths and weaknesses. Where divestment may work for one client, a specific impact investment may be better suited for another. In any case, the process of defining the true mission upfront empowers the investor to best limit risk, maximize return and ultimately fulfill the mission. And when in doubt, always remember to ask the question: **“How do I want to express my values?”** Stay tuned for our third installment as we dive deep into how you can implement such a portfolio: **Mission-Aligned Investing™: Implement.**

¹ US SIF Foundation: “Report on US Sustainable, Responsible and Impact Investing Trends 2016.”

About the Authors:



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Bill provides investment consulting services to nonprofit organizations, corporate executives, family trusts and other private investors. Bill services clients by providing advice and expertise on asset allocation, portfolio design, investment policy statements, manager search process and overall investment management. He is a member of the firm’s Mission-Aligned Investing™ Sub-Committee. Prior to joining the firm, Bill was a Senior Associate in the Sales & Service division of Northern Trust Global Investments where he was responsible for both institutional and wealth client relationships. Earlier in his career, Bill held positions on the trading floors of both the New York Stock Exchange and Chicago Board of Trade. He earned a BA in Philosophy & Political Science from Fordham University, a Master in Business Administration (MBA) from Lewis University and a Master of Science in Finance (MSF) from Lewis University. He obtained the title Certified Investment Management Analyst (CIMA®) from the Investments & Wealth Institute™ accreditation program at the Wharton School of Business. Bill is an avid runner and completed the Ironman Triathlon®. These days he and his wife enjoy chasing their two boys around the backyard.

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Brad joined DiMeo Schneider & Associates, L.L.C. in 2012. As Principal and Research Director, he directs the firm's Core Investment Strategy Group, overseeing investment research across global equity, global fixed income and global real assets. He is a member of the firm's Investment Committee, Discretionary Committee and all Research Teams. Additionally, Brad leads the firm's efforts in mission-aligned investing™ across both public and private markets as well as chairs the firm's Target Date Committee. Prior to joining the firm, Brad worked in various research capacities at Citigroup and Wells Fargo in New York. He received a BA in Finance and Minor in Economics from The University of Colorado and is a CFA® charterholder and member of the CFA Society of Chicago and CFA Institute. Additionally, he is active with Greenhouse Scholars, a nonprofit providing financial and personal support to under-resourced college students. In his free time, Brad loves cooking and spending time with his wife and young sons.

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