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MISSION-ALIGNED INVESTING

DEFINE | APPROACH | IMPLEMENT | MEASURE

[DEFINE]

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William Parker, CIMA®, Senior Consultant

Bradford Long, CFA, Principal, Research Director – Global Public Markets

Our understanding of environmental and societal needs have grown in recent years and so too have the opportunities for investors to incorporate this information into their portfolios. In this four part series on **Mission-Aligned Investing**, we walk through the key areas that we believe are necessary to understanding the benefits, drawbacks, limits and opportunities with this type of investment.

In **Mission-Aligned Investing: Define** we seek to answer the question: **‘What is mission-aligned investing?’**

Introduction

Mission-aligned investing is a broad term encompassing a variety of topics ranging from religious beliefs to environmental issues and everything in between. Interest has grown significantly over the last decade and so have the related investment opportunities. You might ask, why is the broader marketplace drawn to mission-aligned investing? Has society reached a point where there is no choice but to act in a sustainable manner? Are active managers in search of new ways to outperform? There are likely many reasons behind the recent push but, as the opportunities to invest responsibly continue to increase, it largely stems from the central desire that investors want to align their capital with their unique set of values.

Defining Values

Everyone has their own values that can vary in magnitude and specificity from person to person or organization to organization. However, the marketplace has broadly categorized values into three basic groups: **Environmental**, **Social** and **Governance**. A sample of each subsection is below.

ENVIRONMENTAL

Energy Efficiency
Biodiversity/Land Use
Climate Change
Water Scarcity



SOCIAL

Labor Standards
Working Conditions
Human Rights
Diversity



GOVERNANCE

Shareholder Rights
Transparency
Board Structure
Data Security



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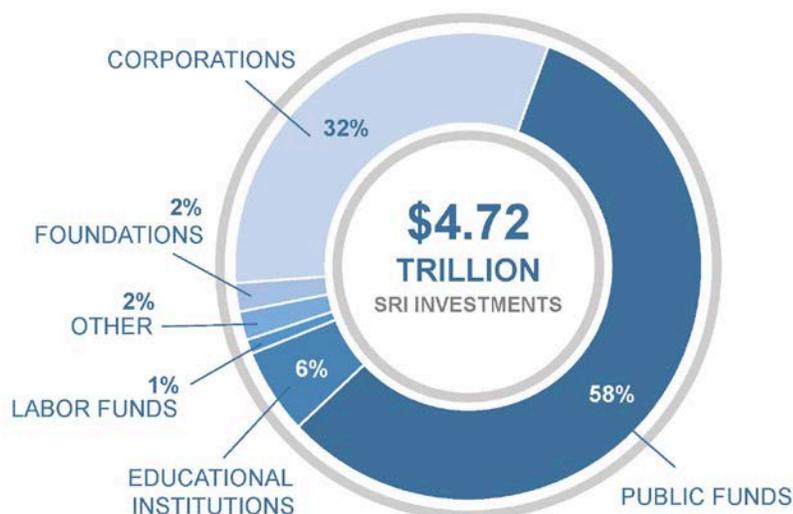
While these categories barely skim the surface of the broader scope of mission-aligned investing, they provide some context to the issues most commonly discussed in the marketplace. During the normal course of business operations, both positive and negative externalities are created. Some investors have become more concerned with limiting negative externalities (pollution, worker exploitation, poor safety conditions, etc.) while others wish to support what they believe to be positive externalities (energy efficiency, pay equality, shareholder rights, etc.). Below is a breakdown of the leading mission-aligned criteria by interest from institutional investors and an estimate of dollars invested in the cause. Notable is the increased interest in climate change, up nearly 300 percent in the past two years as of 2014¹.

LEADING ESG CRITERIA INTERESTS 2016²



According to US SIF's ('Social Investment Forum') 2016 report, investors using mission-aligned criteria to guide some or all of their investments accounted for approximately \$8.7 trillion in assets under management. This is up nearly 33% from 2014².

DISTRIBUTION OF ASSETS: INSTITUTIONAL 2016³



Defining Values for Companies

What impact does including mission alignment have on a company's bottom line? Does the inclusion of women on corporate boards impact stock prices? Why should you as an investor care about the reputational risk of a company? It may seem like some of these considerations may be more for show. These key questions might make more sense when you consider the evolution of the U.S. economy over the last half a century. The U.S. has transitioned from an industrial-based economy to a service based one, and in such a transition, many companies are valued on intangible assets such as intellectual capital, goodwill and brand reputation. Mission-aligned information can help provide some context to the risk and potential reward of these companies with increasingly intangible asset bases.

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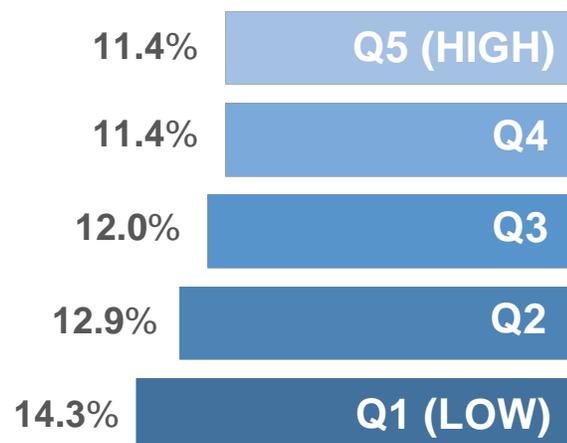


COMPANY SPOTLIGHT

APPLE⁴: Apple has taken it upon themselves to lead the charge in eliminating their carbon footprint as a company. As just one example of many initiatives taken by the company, Apple began engaging directly with their suppliers in 2015 to find ways to reduce their energy use, such as replacing inefficient heating, cooling and lighting systems, repairing infrastructure and recovering wasted heat. By the end of 2016, they conducted 34 energy audits at supplier facilities which identified over \$55 million in annual savings opportunities. In 2016, these improvements avoided more than 150,000 metric tons of carbon dioxide equivalents.

For many, mission-aligned investing is another lens to help identify risk. Intuitively, the idea is that companies with higher standards surrounding labor relations, diversity of board composition, senior management pay and environmental impact should exhibit lower business and reputational risk than peers with worse standards. According to Arabesque’s *S-Ray* tool, a proprietary tool that monitors the sustainability of over 7,000 of the world’s largest companies, we see this idea play out. Through machine learning and big data, this tool systematically combines over 200 environmental, social and governance (‘ESG’) metrics with news signals from over 50,000 sources across 15 languages. The universe includes coverage of global developed and emerging market countries, removing the 20% least liquid names. As seen below, the highest quintile of companies in the universe have exhibited less volatility than those in lower quintiles over the past 3 years.

3-YR VOLATILITY BY QUINTILE ARABESQUE S-RAY⁵



Are there advantages to incorporating values into your portfolio? Typically, incorporating many of these underlying considerations is consistent with what fundamental analysts have always done, which analyzing material financial and non-financial public information in tandem to develop an investment thesis on a security. To this extent, adding mission-alignment information can be additive to an investment thesis and further perpetuate an organization’s or individual’s mission.

In the installments to follow, we explore exactly how you, as an investor, can approach and implement a mission-aligned portfolio.

Are you passionate about reducing your carbon footprint? Do you have religious beliefs that put conflict risk at the center of importance? These are the types of questions we must ask ourselves as responsible investors. Please join us as we outline ways to approach these questions in our second installment: **Mission-Aligned Investing: Approach.**

¹ US SIF Foundation: “Report on US Sustainable, Responsible and Impact Investing Trends 2014.”

² US SIF Foundation: “Sustainable and Impact Investing: Institutional Investors 2016.”

³ US SIF Foundation: “Report on US Sustainable, Responsible and Impact Investing Trends 2016.”

⁴ Apple: “Environmental Responsibility Report, 2017 Progress Report, Covering Fiscal Year 2016.”

⁵ Arabesque “S-Ray” Tool. The measure of volatility represented is annualized standard deviation.

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About the Authors:



William Parker, CIMA®
*Senior Consultant,
The Wealth Office™*

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 ESG Investment 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.



Bradford L. Long, CFA
*Principal, Research
Director - Global Public
Markets*

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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