



MAINSTREET  
ADVISORS



MIND, HEART & WALLET  
TRENDS IN SOCIALLY RESPONSIBLE INVESTING

# AGENDA

## SOCIALLY RESPONSIBLE INVESTING

- SRI DEFINED
- WHO IS INTERESTED?
- TRENDS
- MYTHS AND COUNTER-ARGUMENTS
- MAINSTREET ADVISORS SRI STRATEGY

## SOCIALLY RESPONSIBLE INVESTING DEFINED

### INTRODUCTION

SOCIALLY RESPONSIBLE INVESTING INCORPORATES ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) FACTORS INTO INVESTMENT ANALYSIS AND PORTFOLIO CONSTRUCTION.

**ENVIRONMENTAL** – Criteria focus on a company's ability to manage operational and reputational risks and to capitalize on opportunities created by the shift towards a more sustainable economy.

**SOCIAL** – Criteria focus on workplace, product integrity, and community impact issues.

**GOVERNANCE** – Criteria focus on how well a company aligns the interests of managers with those of shareholders over the long term, as well as board and executive diversity.

# ESG INCORPORATION STRATEGIES & TERMS

## INTRODUCTION

- NEGATIVE/EXCLUSIONARY
- POSITIVE/BEST IN CLASS
- ESG INTEGRATION
- IMPACT INVESTING
- SUSTAINABILITY THEMED INVESTING

## INVESTMENTS TYPICALLY AVOIDED IN SRI INVESTING

HISTORICALLY SRI INVESTING WOULD AVOID COMPANIES INVOLVED IN THE FOLLOWING:

- NUCLEAR POWER
- TOBACCO
- ALCOHOL
- GAMBLING
- ADULT ENTERTAINMENT
- MILITARY WEAPONS
- CIVILIAN FIREARMS
- GENETICALLY MODIFIED ORGANISMS (GMOs)
- OIL SANDS
- RELIANCE ON COAL (IF ABOVE THE NATIONAL AVERAGE FOR UTILITY COMPANIES, UNLESS THERE IS A SIGNIFICANT COMMITMENT TO REDUCE THOSE LEVELS)

# INTEGRATING ESG FACTORS INTO INVESTMENT ANALYSIS AND DECISION MAKING

AREA OF FOCUS	ESG FACTORS	POTENTIAL IMPACT ON FINANCIAL PERFORMANCE
ENVIRONMENTAL 	<ul style="list-style-type: none"><li>– Resource management and pollution prevention</li><li>– Climate change/emissions reduction</li><li>– Environmental reporting/disclosure</li></ul>	<ul style="list-style-type: none"><li>– Avoid or minimize environmental liabilities</li><li>– Lower costs/increase profitability through energy and other efficiencies</li><li>– Reduce regulatory, litigation and reputational risk</li></ul>

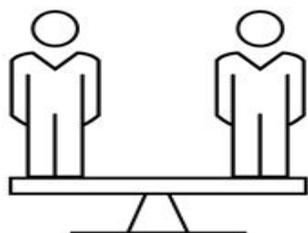
# INTEGRATING ESG FACTORS INTO INVESTMENT ANALYSIS AND DECISION MAKING

## AREA OF FOCUS

## ESG FACTORS

## POTENTIAL IMPACT ON FINANCIAL PERFORMANCE

### SOCIAL



### WORKPLACE

- Diversity
- Occupational health and safety
- Labor-management relations
- Human rights

### WORKPLACE

- Improve productivity and morale
- Reduce turnover and absenteeism
- Openness to new ideas and innovation

### PRODUCT INTEGRITY

- Safety
- Product quality
- Emerging technology issues

### PRODUCT INTEGRITY

- Create brand loyalty
- Improve product safety
- Reduce potential for litigation and reputational risk

### COMMUNITY IMPACT

- Community relations
- Responsible lending
- Corporate philanthropy

### COMMUNITY IMPACT

- Improve brand loyalty
- Protect license to operate

# INTEGRATING ESG FACTORS INTO INVESTMENT ANALYSIS AND DECISION MAKING

## AREA OF FOCUS

## ESG FACTORS

## POTENTIAL IMPACT ON FINANCIAL PERFORMANCE

### GOVERNANCE



- Executive compensation
- Reporting and disclosure
- Board structure and accountability
- Policies regarding takeover defenses and political spending

- Align interests of shareholders and management
- Reduce reputational risk

## REASONS FOR RISING INTEREST IN ESG STRATEGIES

- GROWING DEMAND
- IMPLEMENTATION MOVING TOWARD STRATEGIES FOCUSING ON POSITIVE ATTRIBUTES
- HIGH QUALITY INVESTMENT OPTIONS ARE INCREASING WITHIN AND ACROSS ASSET CLASSES
- PEOPLE, ESPECIALLY WOMEN AND MILLENNIALS, WANT TO INVEST THE WAY THEY LIVE
- BROADER DEFINITION OF FIDUCIARY DUTY

# WHO ARE SUSTAINABLE, RESPONSIBLE AND IMPACT INVESTORS?

PUBLIC PENSIONS

FOUNDATIONS/  
HOSPITALS

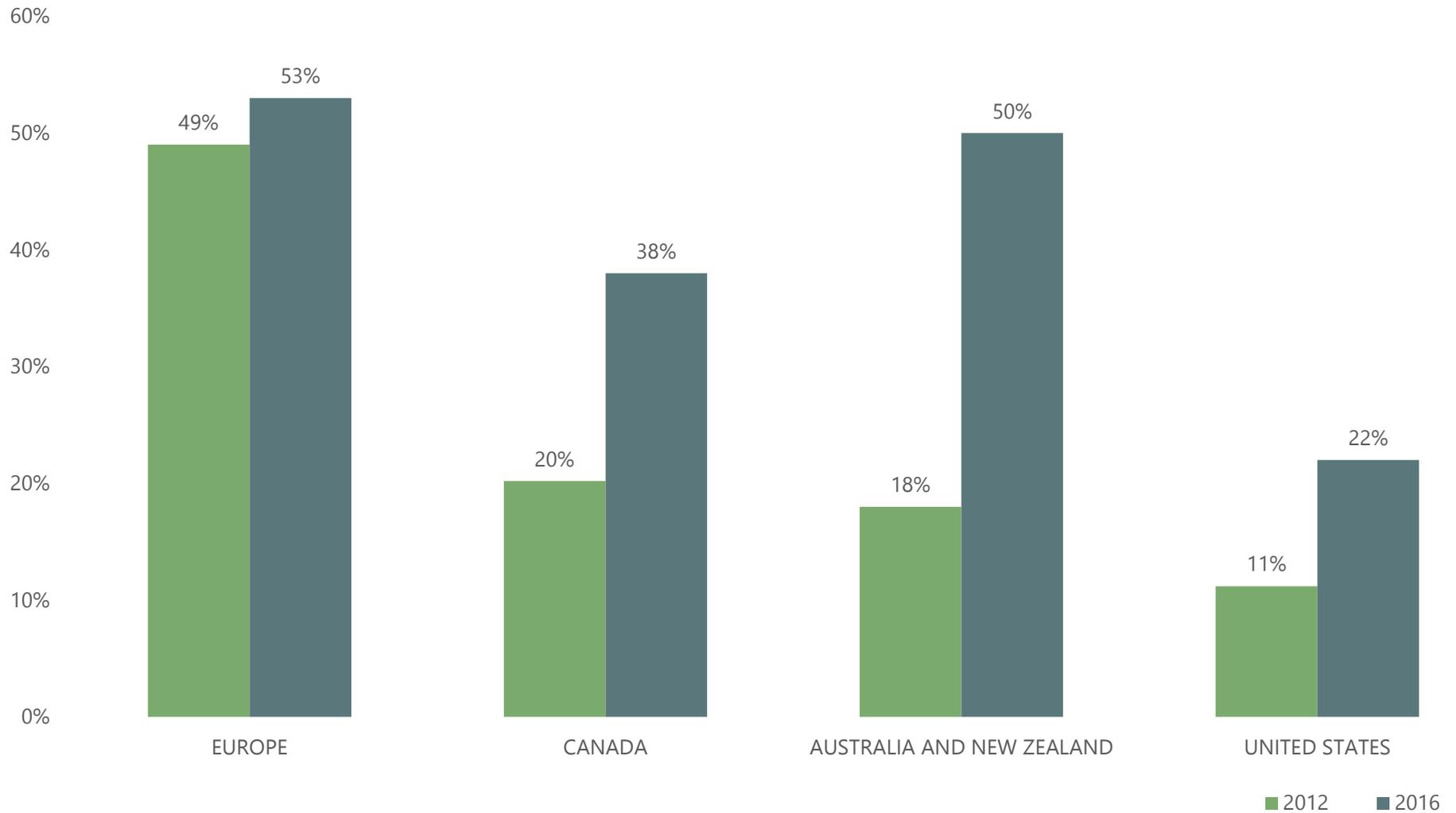
CREDIT UNIONS

RELIGIOUS  
INSTITUTIONS

INDIVIDUALS

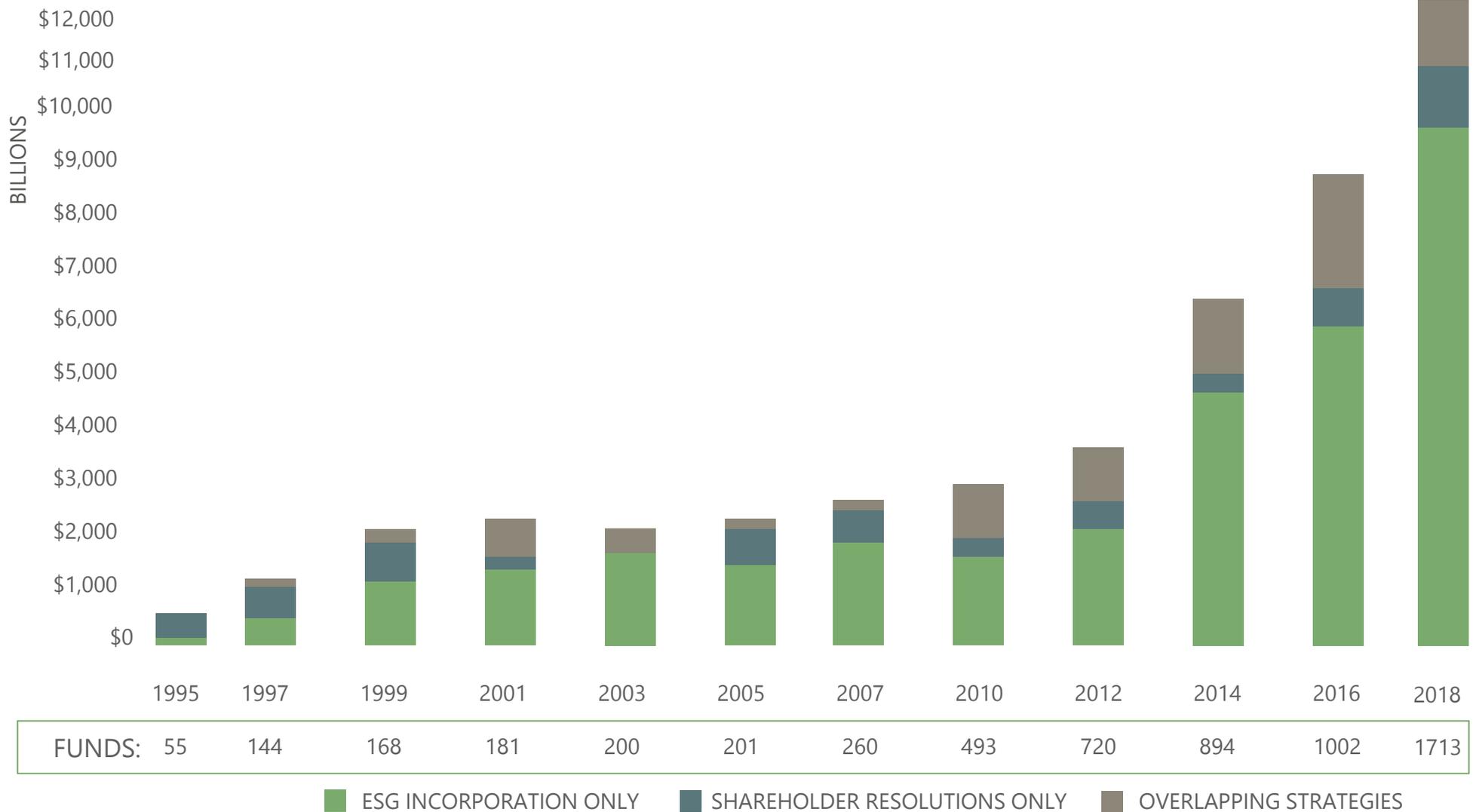
# WHERE ESG IS GAINING MOMENTUM?

## RELATIVE PROPORTION OF ESG ASSETS IN TOTAL AUM BY REGION, 2016



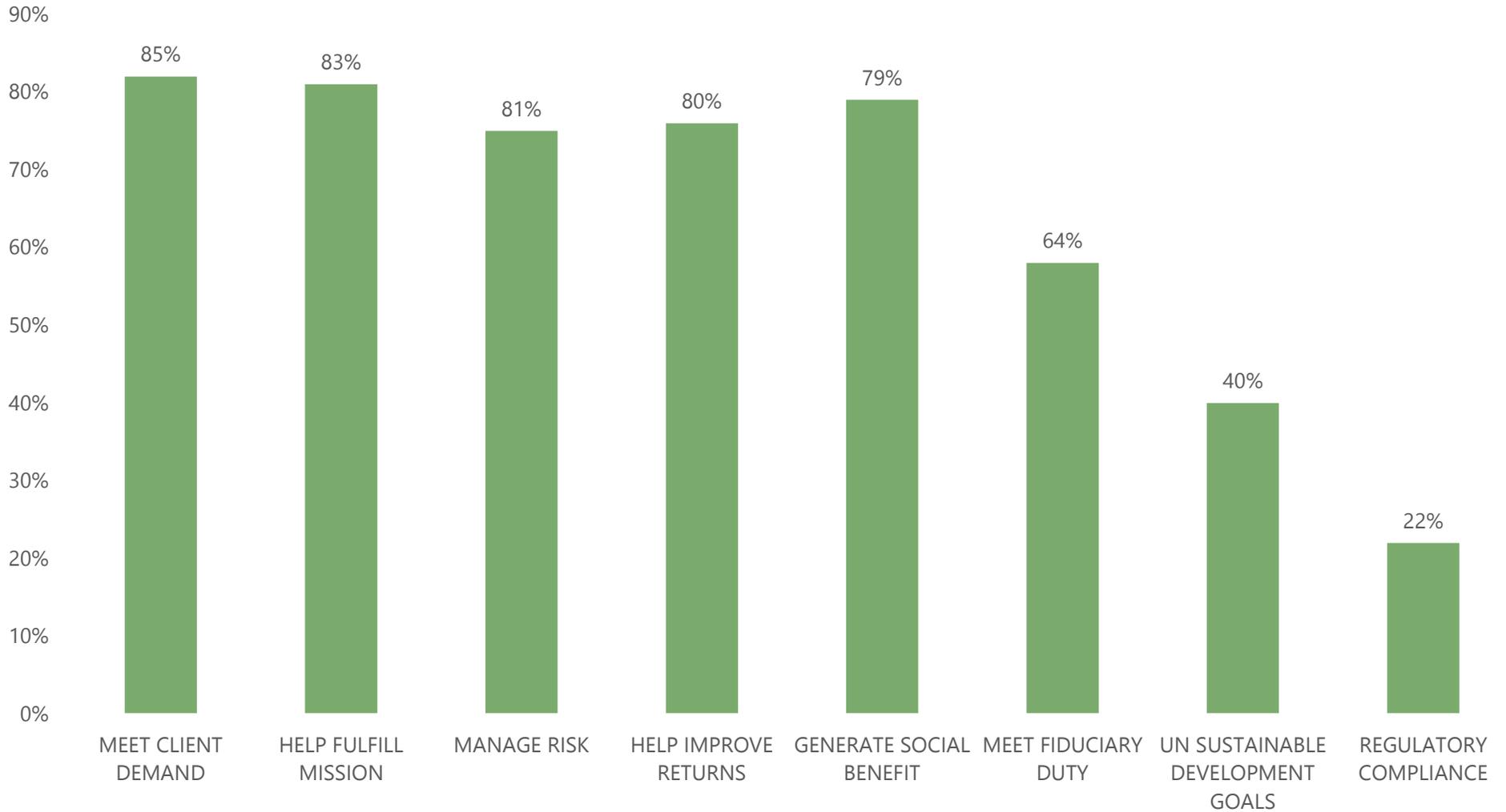
# U.S. SUSTAINABLE INVESTING IS GROWING RAPIDLY

## SUSTAINABLE, RESPONSIBLE AND IMPACT INVESTING IN THE UNITED STATES 1995-2018

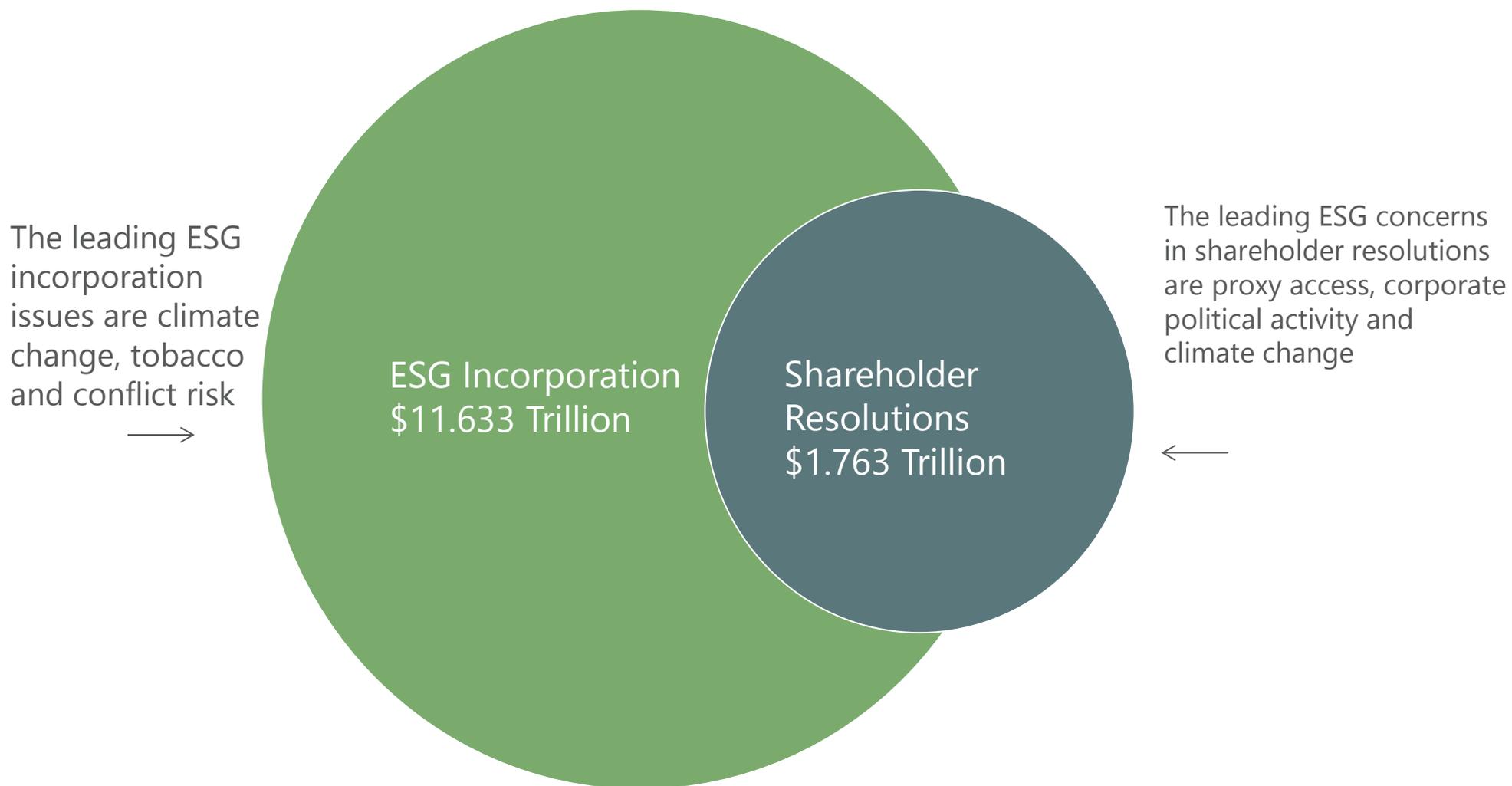


# MOTIVATIONS FOR SUSTAINABLE INVESTING

## MONEY MANAGERS



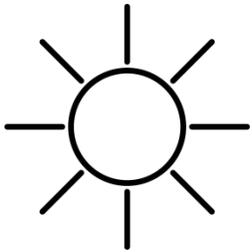
# SUSTAINABLE AND RESPONSIBLE INVESTING IN U.S. 2018



# ESG CATEGORIES INCORPORATION BY MONEY MANAGERS

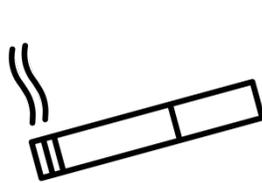
## LEADING ESG CRITERIA 2018

CLIMATE  
CHANGE/CARBON



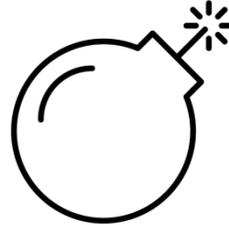
\$3.00  
TRILLION

TOBACCO



\$2.89  
TRILLION

CONFLICT RISK



\$2.26  
TRILLION

HUMAN RIGHTS



\$2.22  
TRILLION

TRANSPARENCY /  
ANTI-CORRUPTION



\$2.22  
TRILLION

PERCENT INCREASE IN ASSETS AFFECTED 2016-2018

110%

432%

47%

171%

206%

## INDIVIDUAL INVESTOR INTEREST GROWING

AMONG INDIVIDUAL INVESTORS...

75%

Are interested in sustainable investing; 86% of Millennials

71%

Believe companies with leading sustainability practices may be better long-term investments

80%

Are interested in sustainable investments that can be customized to meet their goals and interests.

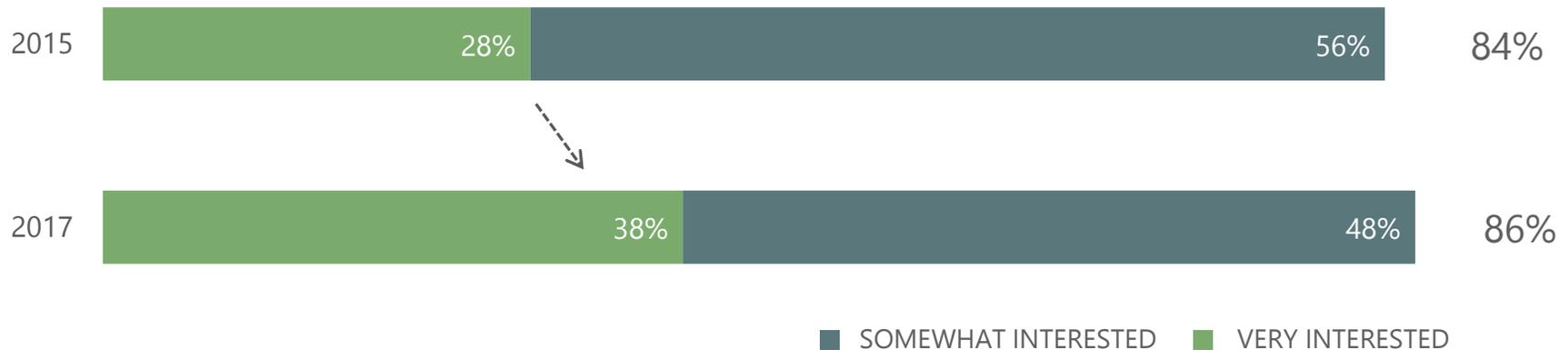
# MILLENNIAL INTEREST IN SUSTAINABLE INVESTING

HOW INTERESTED ARE YOU IN SUSTAINABLE INVESTING, AIMING TO ACHIEVE MARKET-RATE FINANCIAL RETURNS WHILE PURSUING POSITIVE SOCIAL AND/OR ENVIRONMENTAL IMPACT?

## GENERAL POPULATION



## MILLENNIALS



■ SOMEWHAT INTERESTED ■ VERY INTERESTED

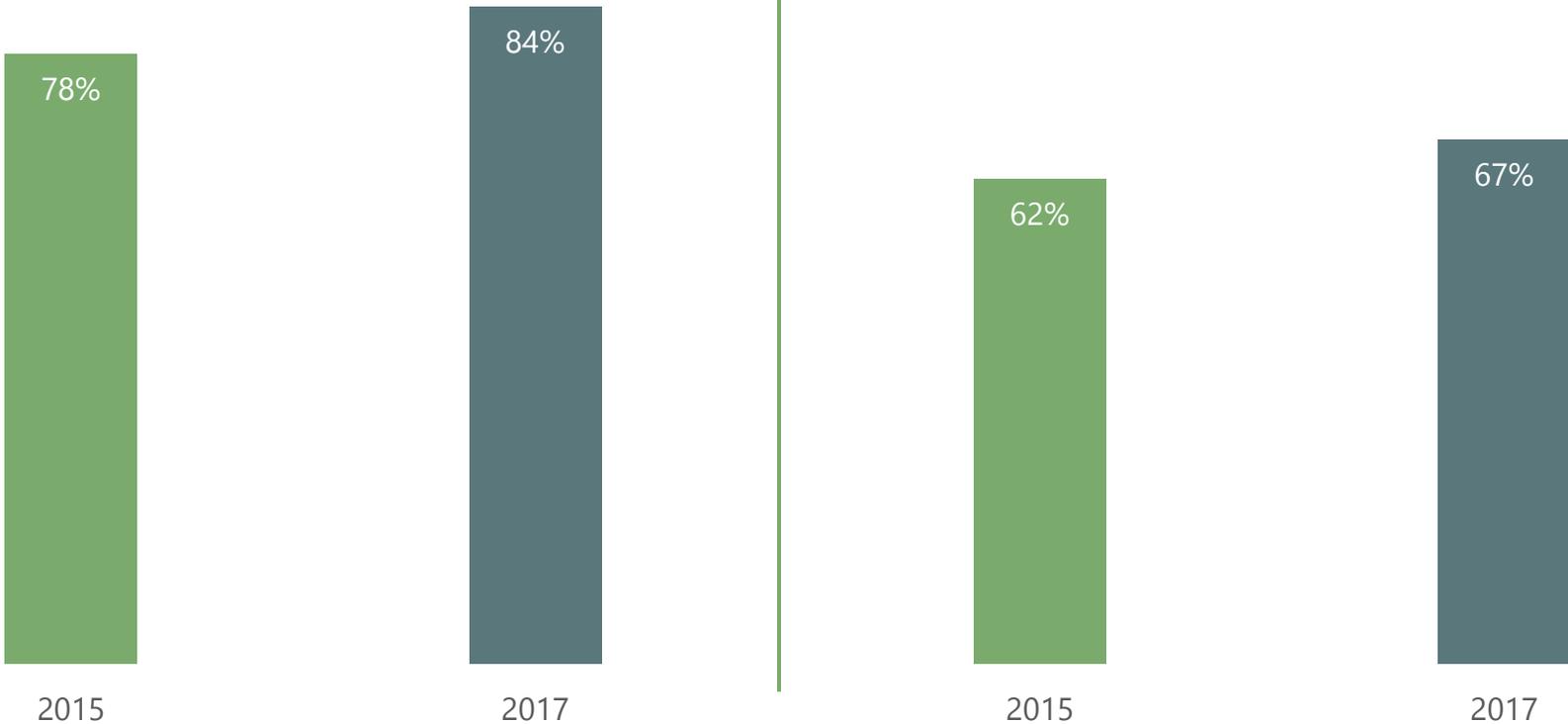
# INTEREST BY WOMEN IN SRI CONTINUES TO OUTPACE MEN

HOW INTERESTED ARE YOU IN SUSTAINABLE INVESTING, WHICH IS THE PRACTICE OF MAKING INVESTMENT IN COMPANIES OR FUNDS AIMING TO ACHIEVE MARKET-RATE FINANCIAL RETURNS WHILE PURSUING POSITIVE SOCIAL AND/OR ENVIRONMENTAL IMPACT?

## PERCENT INTERESTED IN SUSTAINABLE INVESTING

WOMEN

MEN



## WHY SOME INVESTORS ARE STILL SKEPTICAL

- BELIEF THAT ESG INCORPORATION LIMITS THE INVESTMENT UNIVERSE AND POTENTIAL PERFORMANCE OPPORTUNITIES
- MISUNDERSTANDING OF ESG PERFORMANCE DRIVERS
- UNIVERSE OF ESG MANAGERS REMAINS SMALL AND UNDIVERSIFIED RELATIVE TO NON-ESG MANAGERS
- DIFFICULTIES IN IMPLEMENTATION OF A TOTAL PORTFOLIO CONTEXT
- MANY INVESTORS STILL WANT MORE PROOF

# SRI INVESTING - MYTH BUSTING

## INTERESTED IN IMPACT INVESTING BUT NOT SURE IF IT'S A GOOD IDEA?

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### SACRIFICING RETURNS

A 2015 proprietary study by the Institute for Sustainable Investing examined 7 years of performance of thousands of mutual funds and separately managed accounts. Results showed that they met or often exceeded performance of traditional investments.<sup>1</sup>

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### NICHE AREA

Sustainably invested assets represent more than 20% of dollars invested professionally.<sup>2</sup>

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### LIMITED PRODUCTS

Over 1,000 distinct funds as of 2016. Over \$2.5 trillion in assets incorporate some sort of ESG criteria when choosing investments.<sup>2</sup>

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### ONLY WEALTHY CAN INVEST

Millennials are leading the charge on the recent growth of investing sustainably. More products have accessible entry minimums.

SOURCE: <sup>1</sup>MORGAN STANLEY INSTITUTE FOR SUSTAINABLE INVESTING 2015, SUSTAINABLE REALITY: UNDERSTANDING THE PERFORMANCE OF SUSTAINABLE INVESTMENT STRATEGIES

SOURCE: <sup>2</sup>REPORT ON US SUSTAINABLE, RESPONSIBLE AND IMPACT INVESTING TRENDS 2018. US SIF FOUNDATION



MSA SRI INVESTING

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## MAINSTREET ADVISORS STOCK SELECTION METHODOLOGY

### MAINSTREET ADVISORS UTILIZES FOUR SRI/ESG METRICS WHEN SCREENING FOR NEW STOCK IDEAS

- INCLUSION IN THE KLD 400 SOCIAL INDEX
- SUSTAINALYTICS RATING
- INSTITUTIONAL SHAREHOLDER SERVICES QUICKSCORE
- BLOOMBERG'S ESG DISCLOSURE SCORE

## MAINSTREET ADVISORS STOCK SELECTION METHODOLOGY

### MSCI KLD 400 SOCIAL INDEX

- A CAPITALIZATION WEIGHTED INDEX OF 400 U.S. SECURITIES.
- PROVIDES EXPOSURE TO COMPANIES WITH OUTSTANDING (ESG) RATINGS; EXCLUDES COMPANIES WHOSE PRODUCTS HAVE NEGATIVE SOCIAL OR ENVIRONMENTAL IMPACTS. THE PARENT INDEX IS MSCI USA IMI.
- DESIGNED FOR INVESTORS SEEKING A DIVERSIFIED BENCHMARK OF COMPANIES WITH STRONG SUSTAINABILITY PROFILES, WHILE AVOIDING COMPANIES INCOMPATIBLE WITH VALUES SCREENS.
- LAUNCHED IN MAY 1990 AS THE DOMINI 400 SOCIAL INDEX. CONSTITUENT SELECTION IS BASED ON DATA FROM MSCI ESG RESEARCH.

# MSCI KLD 400 SOCIAL INDEX FROM MAY 1990 THROUGH MARCH 2019

## GROWTH OF \$1,000



## MAINSTREET ADVISORS ADDITIONAL SRI/ESG SCREENING METRICS

- SUSTAINALYTICS RATING
- INSTITUTIONAL SHAREHOLDER SERVICES QUICKSCORE
- BLOOMBERG'S ESG DISCLOSURE SCORE

## CONCLUSION

- INCREASED DEMAND FOR INVESTING WITH AN SRI FOCUS AS STRATEGIES HAVE GROWN IN SOPHISTICATION FROM SIMPLE EXCLUSIONARY SCREENS.
- COMPANIES BECOMING EVEN MORE AWARE OF THE NEED TO FOCUS ON ISSUES RELATED TO SUSTAINABILITY, EMPLOYEE AND PRODUCT SAFETY AND CORPORATE GOVERNANCE.
- INVESTORS DO NOT HAVE TO SACRIFICE THEIR FINANCIAL GOALS OR PERFORMANCE IN THE PURSUIT OF INVESTING WITH AN SRI FOCUS.

# DISCLOSURES



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