

THE TALL TALE OF THE TRADE-OFF



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Introduction and Conclusion

The purpose of this whitepaper is to highlight the development of values-based investing at a summary level and, more importantly, provide research that indicates there is no sacrifice of investment returns in adopting a faith-based approach to values investing.

Everyone has values that impact their thinking and their lives. It has become increasingly common to align one’s investments with those values. According to McKinsey and the Global Sustainable Investment Alliance, ESG assets are on track to reach \$53 trillion, based on this analysis, up from \$37.8 trillion by year-end. Exclusionary screening based on religious values and other criteria makes up the biggest chunk of ESG investing, at about \$20 trillion globally in 2018. ¹

What is Values-Based Investing?

Values-based investing is a practice providing investors the ability to invest in companies that align with their personal beliefs and values. Values-based investors look at a company’s financial factors, such as financial returns, balance sheet, growth rate and valuation, but also at non-financial factors, such as business ethics, data privacy, and well-being of employees when selecting their investments. They want to support the companies that are “doing good,” those that are making a positive impact in the areas that mean the most to that individual investor. With values-based investing, one’s investments not only reflect their financial goals, but also align their values, beliefs, and the causes they support.

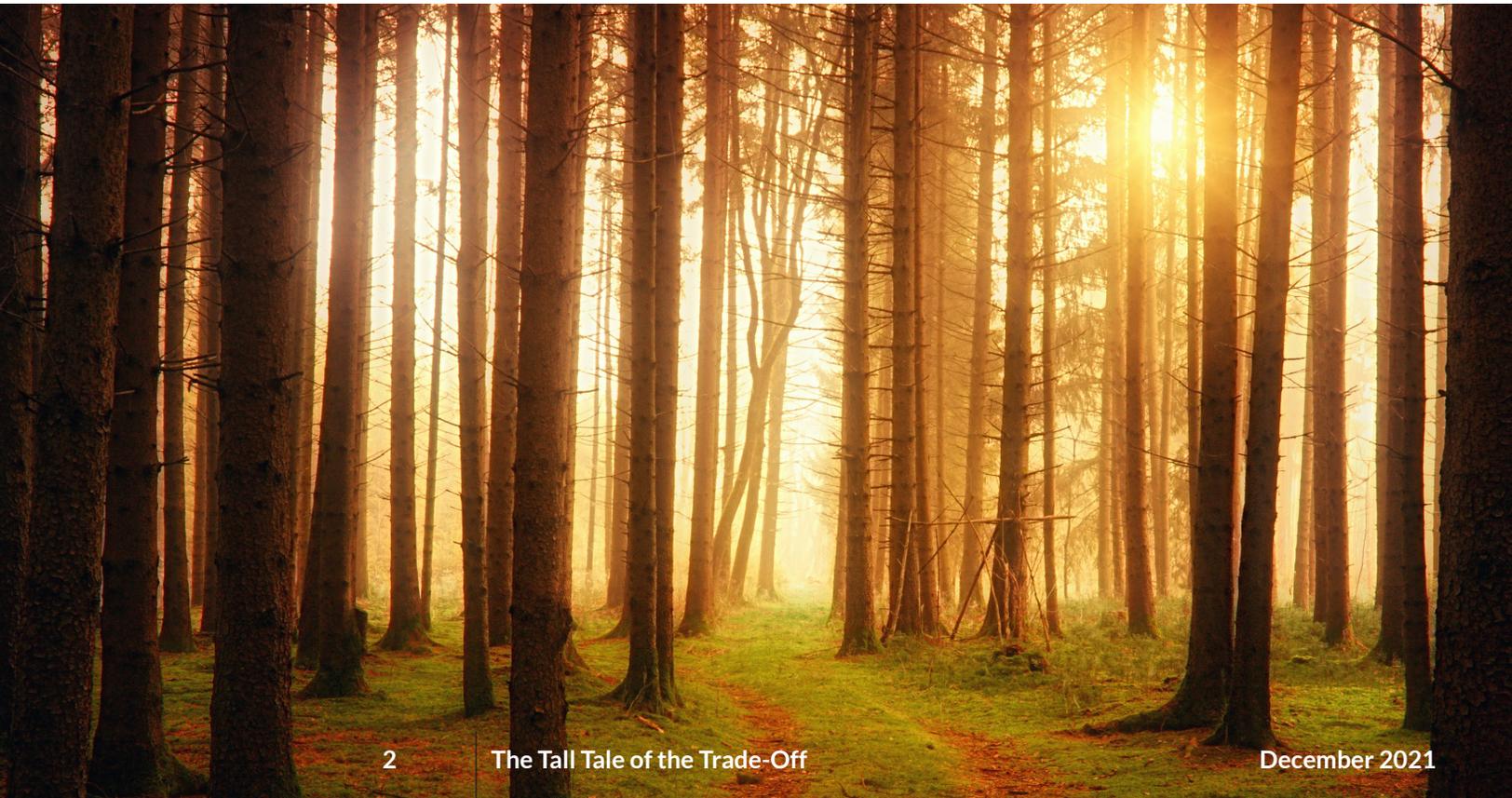
Elements of Values-Based Investing

	Avoid	Embrace	Engage
Definition	“Do No Harm”	“Do Good”	“Promote Change from Within”
Implementation	Negative/Exclusionary Investment Screening	Positive/Inclusionary Investment Screening	Proxy Voting Company Engagement Shareholder Resolutions

¹ ESG assets may hit \$53 trillion by 2025, a third of global AUM, Bloomberg Intelligence, February 23, 2021, Bloomberg.com

How to Implement Values-Based Investing

1. **Exclusionary Screening**
 - a. Avoids securities based on certain sectors, products, actions or risk-based criteria
 - b. Reflects values
2. **Inclusionary Screening**
 - a. Positive or improving values-based factors vs. peers
 - b. Focuses on sectors or themes
3. **Integration**
 - a. Systematic, explicit inclusion of values-based factors in the investment process
 - b. Aims for higher returns or to mitigate risks
4. **Impact**
 - a. Measurable, positive outcome
 - b. Project specific
 - c. Non-financial outcome & returns are equally important
5. **Active Ownership**
 - a. Corporate engagement
 - b. Shareholder advocacy
 - c. Proxy voting
 - d. Shareholder resolutions



Avoid & Embrace With Investment Screening

The Trade-Off: Values or Returns?

Investment screening is the process of using a set of criteria focused around specific factors or characteristics of companies in order to determine their eligibility for inclusion in a values-based portfolio. Screening allows investors to target companies or industries they want to avoid or exclude from their portfolio (negative screening) and/or companies they want to support or include in their portfolio (positive screening). Positive and negative screens (or filters) can be based on traditional financial criteria as well as values-based criteria.

It is a commonly held assumption among investors that if their investment portfolio incorporates their values, the performance of that portfolio will suffer. This paper seeks to show that this is just a myth. Over 20 years of investment history shows us that values-based investing does not mean sacrificing performance.

Below we examine biblically responsible investment (BRI) history provided by Biblically Responsible Investing Institute (BRII). The chart shows the impact of applying investment screening on the S&P 500 index over the 20-year period ending December 31, 2019. The results show that the BRI Screened Portfolio returned the exact same as the S&P 500 index over that period.

BRI Screened Portfolio Ties the S&P 500 Index
Cumulative Returns of BRI Screened Portfolio vs. S&P 500 Index
1/1/2000 – 12/31/2019



Source: Biblically Responsible Investing Institute (BRII), Bloomberg

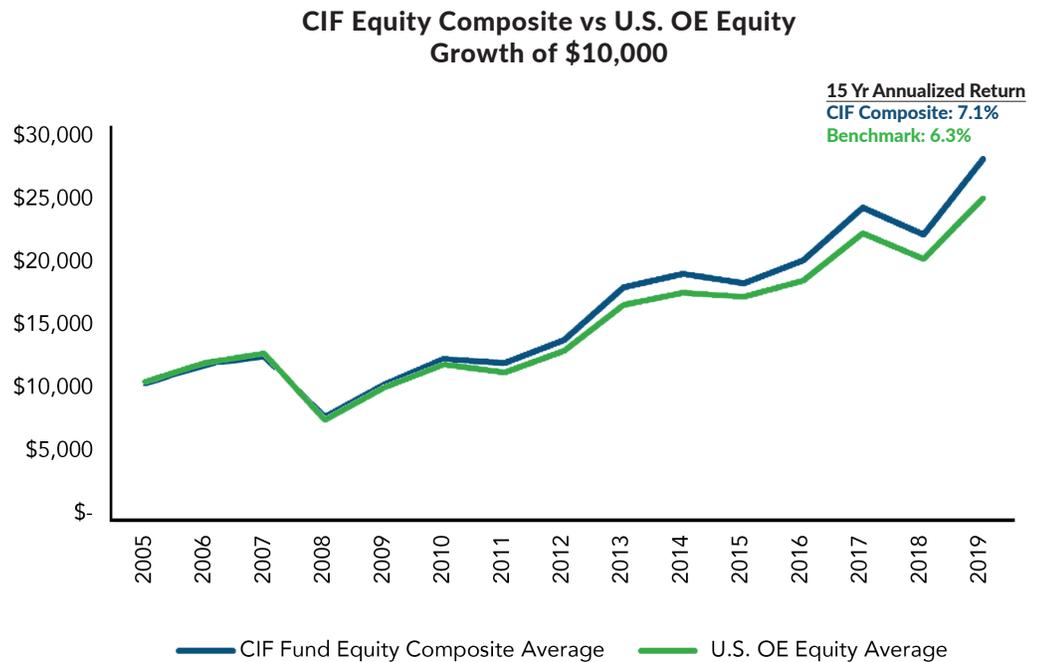
BRI Screened Portfolio Closely Tracks the Unscreened S&P 500 Index



Source: Biblically Responsible Investing Institute (BRII), Bloomberg

The Trade-Off: Values or Returns? Cont'd.

John Siverling, of the former Christian Investment Forum (CIF), studied data for 44 faith-based funds in equity and fixed income categories over a 15-year period ending December 31, 2019 and found that the performance of an average of those funds compared favorably against the benchmark for each category, particularly in equities. The equity composite appears below.

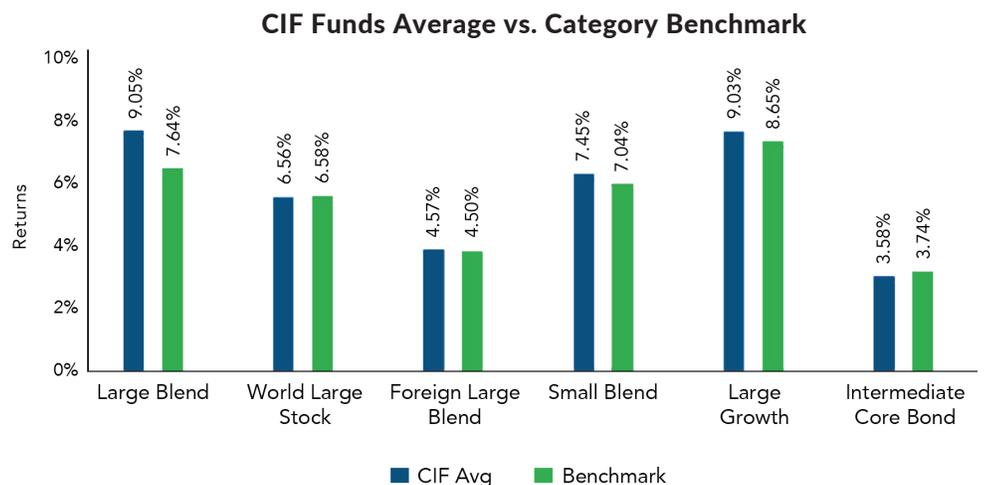


U.S. OE All Equity Average Name	1 Year	3 Year	5 Year	10 Year	15 Year
CIF Equity Funds Composite Average	26.3%	11.6%	7.9%	10.2%	7.1%
Benchmark: U.S. OE All Equity Weighted Average	23.2%	10.3%	7.2%	9.2%	6.3%

Source: Christian Investment Forum (CIF)

*The CIF Equity Fund Composite average had an annualized return of 7.1%, while the benchmark weighted average return was 6.3% over the 15-year period. Note: there were 35 funds included in the composite.

Here are the results by investment category:



Source: Christian Investment Forum (CIF)

Start the Conversation

The empirical results support the case that including faith-based values criteria has provided reasonable and competitive returns, dispelling a long-standing fear or concern that returns might be below the index. Of course, past performance is no guarantee of future results.

The Christian Investment Forum (CIF) 2019 Financial Advisor Survey in Faith-Driven Investing Awareness and Use ² concluded that,

1. There remains a sizable gap between awareness of faith-driven investing and awareness of the breadth of product offerings in this space,
2. The level of knowledge and belief in the credibility of FDI is growing but is not yet at a tipping point, and
3. Interest in FDI recommendations remains well ahead of usage patterns, suggesting this space could grow rapidly.

Financial advisors appear to have one of three responses to values-based (especially faith-based values) investing: (1) nod their head yes but do little to nothing about it (2) put their “toe in the water” with clients, or (3) be “all in” or “sold out” to the concept. The most common objection I hear from financial advisors is “my client hasn’t asked for it,” to which I ask, “what specific investments have your clients asked for?” Usually the response is “nothing or very little.” Give it a try – the worst they can say is “not interested.” At Crossmark, we recommend aligning the power of your investments with the power of your values.

We look forward to watching this space grow rapidly in the future as it has in recent years.

² A Research Study on Faith Based Funds Performance Relative to Industry Averages, John Siverling, June 2020, Christian Investment Forum



About Crossmark Global Investments

Crossmark Global Investments is a faith-based firm that creates, manages, and distributes values-based investment strategies that equip financial intermediaries and their clients to align their wealth with their passions and convictions. For over 30 years, the firm has delivered uniquely constructed products based on its proprietary, disciplined, and repeatable process. Founded in 1987, the firm is headquartered in Houston, Texas. For more information visit: www.crossmarkglobal.com.

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