CROSSMARK
GLOBAL INVESTMENTS

RESPONSIBLE INVESTING:
A THREE PART SERIES

PART I

CROSSMARKGLOBAL.COM

2018

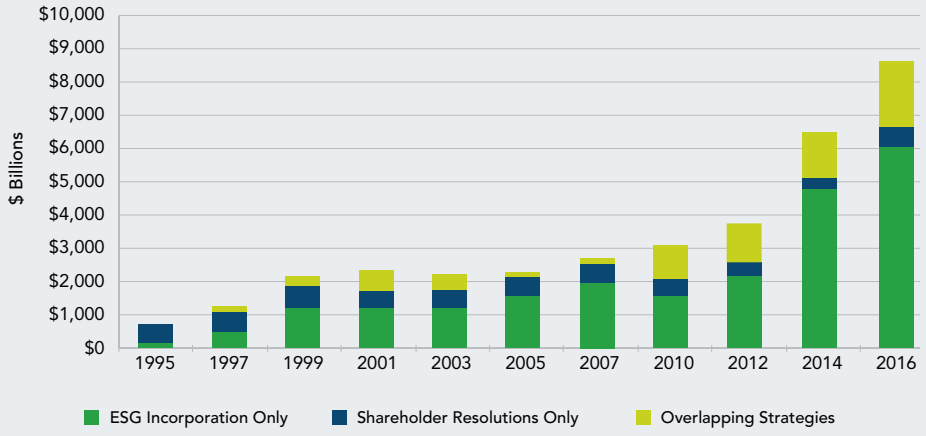
Part 1: The Evolution of Responsible Investing (RI)

It's no secret that investors are increasingly incorporating responsible investment strategies into their decision-making process. According to the *US SIF 2016 Report on US Sustainable, Responsible and Impact Investing Trends*, approximately one fifth of all assets under professional management in the United States incorporate responsible investment strategies; $8.72 trillion in 2016, up from $6.57 trillion in 2014, a 33% increase.

So what is Responsible Investing (RI)? Fortunately, or unfortunately, it is open to one's own interpretation; there is currently no standard definition or single investment strategy, so it depends on who you ask.

Many terms are used to describe responsible investing. Depending on the investment product's focus, these labels include faith-based investing, mission-related investing, ethical investing, impact investing, biblically responsible investing, sustainable investing and community investing. The meaning of these terms often overlaps, but may resonate differently for specific investor demographics.

In this section, we will uncover the history of responsible investing, examine how it has evolved, and analyze the key drivers behind the growth of this emerging market space.



U.S. SIF

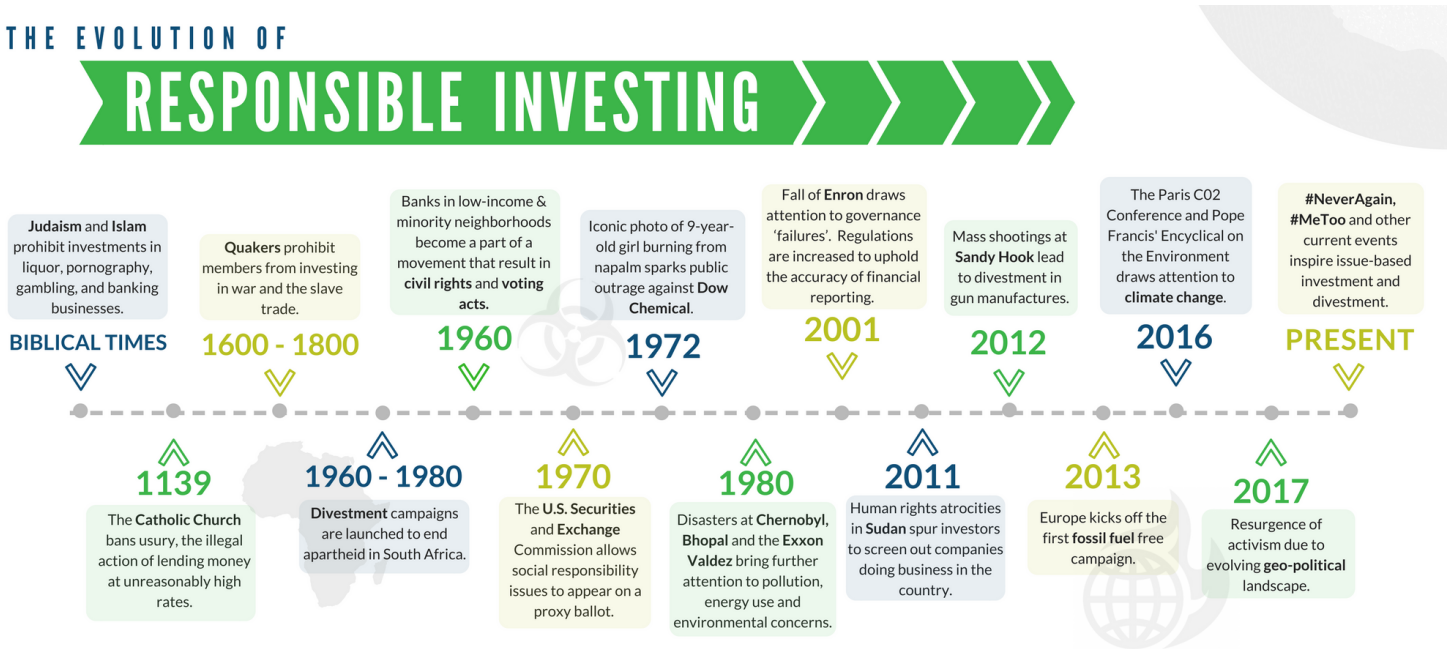
History of Responsible Investing

Approaches to responsible investing can be traced back to biblical times. Jewish law had directives about investing ethically, and Shariah compliant investing, based on the Quran, required that investments must not involve interest (riba), as well as other business dealings deemed 'Haraam' (unlawful). These practices marked the start of what is now referred to as *Socially Responsible Investing* (SRI). In the 1700s, the Quakers prohibited members from investing in slavery or war, and John Wesley, one of the founders of Methodism, outlined basic tenants of social investing in his sermon, "The Use of Money."

The SRI approach was sustained for generations, primary by religious organizations whose investment mandates would instruct investors to avoid "sin stocks" such as alcohol, gambling, pornography and tobacco.

The movement evolved in the 1950s to mirror the political climate and social themes of the time. For this and subsequent decades, investors were concerned with civil rights, equality of women and the anti-war movement. In 1972, an iconic photo from the Vietnam War, of a nine-year-old girl running with her back on fire from napalm, incited outrage against Dow Chemical, the compound's primary producer. A Thomson Reuters' 2013 article sites, "E.N. Brandt, who has written extensively on Dow Chemical, reports that shareholders dropped from 95,000 to 90,000 in the year following publication of the photograph."

SRI surged in the 1980s as people, religious organizations, endowments, universities, cities and states began divesting from companies operating in South Africa in opposition to apartheid. The mounting pressure from shareholder advocacy and lack of investment inflows played an important role in dismantling the apartheid system. Environmental issues also rose to the forefront in the 1980s; disasters at Chernobyl, Bhopal and the Exxon Valdez were instrumental in bringing further attention to pollution, energy use and the environment.



Evolution of Responsible Investing In Modern Events

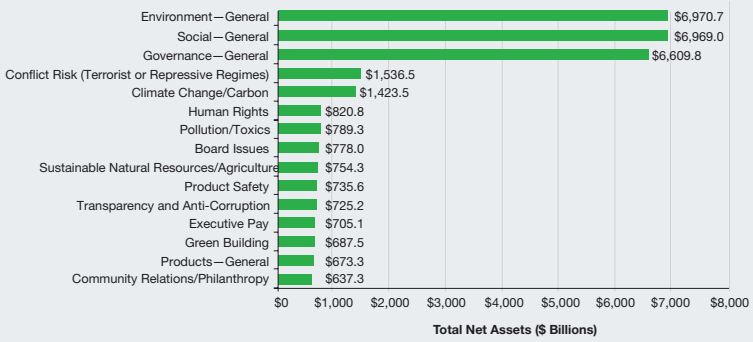
In the last several decades, responsible investors have moved beyond SRI's exclusionary screening to integrate environment, social and governance (ESG) factors into investment analysis. This approach aims to evaluate how effectively companies are addressing key ESG issues in order to mitigate risk and identify opportunities for added return. This philosophy assumes "good companies," (those with strong environmental, social and governance principles and established practices), have the potential to materially impact a company's financial performance while "bad companies," (those with poor practices), are more susceptible to financial risk. Concerns over climate change, discrimination and executive pay have led investors to closely examine companies experiencing reputational risks due to their operational policies or practices.

Further events that have shaped the aforementioned approaches include:

- Mass shootings at **Sandy Hook** and **Orlando** led investors to divest from gun manufacturers and advocate for better gun control.
- Human rights atrocities in **Sudan** and **Iran** spurred investors to screen out companies doing business in these countries.
- In 2010, Congress passed the **Dodd-Frank Wall Street Reform and Consumer Protection Act** in response to the 2007-2008 financial crisis. This was a win for shareholders who had been advocating against companies with unfair and deceptive financial practices.
- The 2015 21st Conference of the Parties **(COP21)** of the United Nations Framework Convention of Climate Change and **Laudato Si'** (Pope Francis' Encyclical on the Environment), rallied investors committed to climate change and environmental concerns.

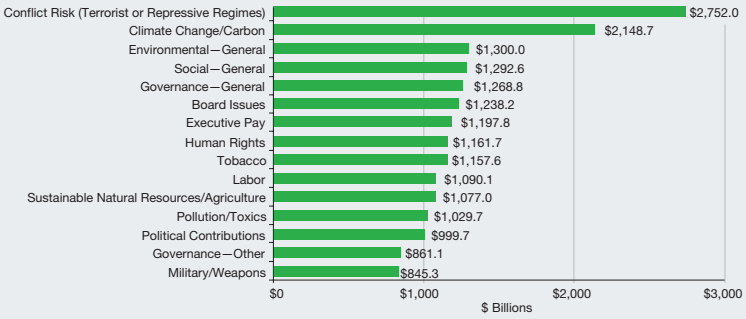
Impact investing was added to the mix in recent years. Impact investment strategies provide capital to companies with the intention to generate financial return along with measurable, positive environmental or societal impact. This growing market addresses pressing issues from around the globe such as renewable and clean energy, affordable housing, microfinance and quality education.

Figure 2.3: Leading ESG Criteria, by Assets, for Money Managers 2016



SOURCE: US SIF Foundation.
NOTE: Data are aggregated across all investment vehicle types, including separate account vehicles and other/not listed.

Fig. 3.4: Leading ESG Criteria for Institutional Investors 2016



SOURCE: US SIF Foundation.
NOTE: Some institutional investors reporting that they have adopted strategies of ESG incorporation, but without specifying which specific ESG issues they consider, account for the assets in the "General" environmental, social and governance categories.

Key Drivers of Responsible Investing

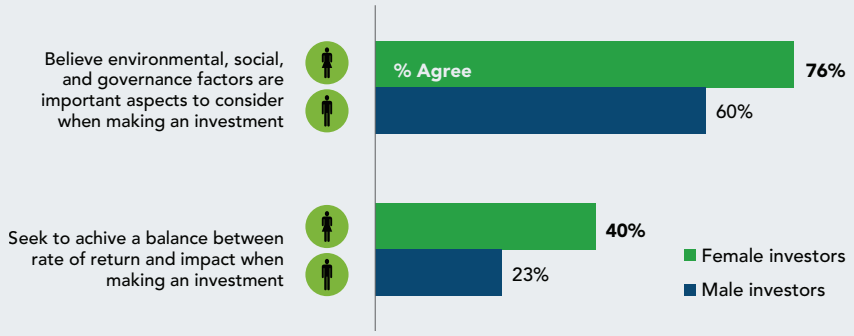
Besides the clear increase in popularity and demand, what is fueling the growth of responsible Investing?

Information - Investors have access to more data and research than ever before, making them more aware and better educated. More corporations are steadily disclosing sustainable data, non-government organizations (NGOs) and advocacy groups are collecting data on an array of RI issues for investor use and research firms are providing more reliable metrics. Though there is no standardized framework for evaluating or methodology for measuring RI data, initiatives are advancing through organizations such the Sustainability Accounting Standards Board (SASB) and the Global Reporting Initiative (GRI) to establish industry standards on RI reporting and disclosure, to enable investors to make better informed investment decisions.

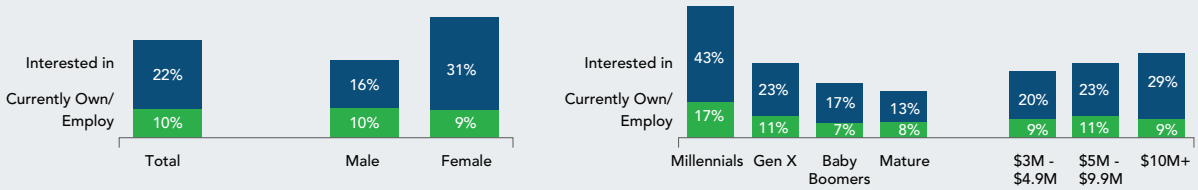
Millennials – According to a recent report by Morgan Stanley, 84% of Millennial investors are interested in sustainable investing. Born between the early 1980s and early 2000s, Millennials represent the largest demographic in American history. Millennials want to make a positive difference in society through jobs, purchasing power and investing. With an estimated $30 trillion transfer in financial and non-financial assets from baby boomers to the 90 million Millennials over the next few decades, this generation will likely have the means to fulfill their investment goals. [1]

Women – The same Morgan Stanley report above estimates that women control 39% of the nation's investable assets. Compared to their male counterparts, female investors are more likely to consider responsible investing factors in their investing decisions.

Female investors are adopting sustainable investing at a faster rate than their male counterparts



% WHO OWN OR ARE INTERESTED IN SOCIAL IMPACT INVESTMENTS



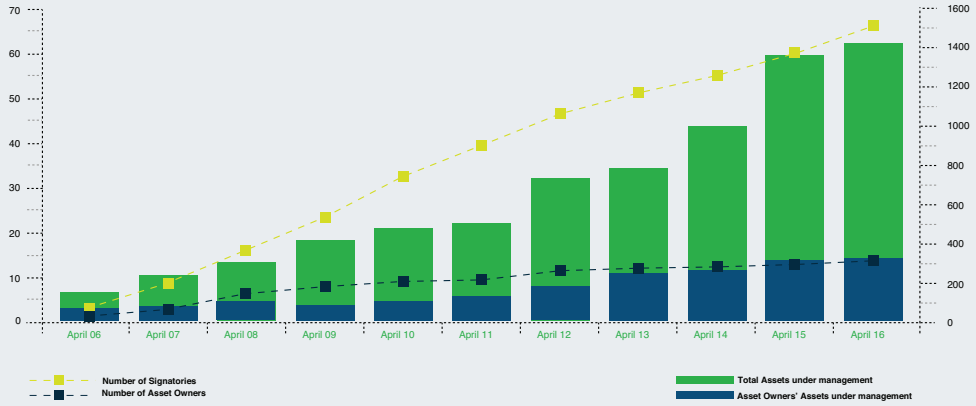
U.S. Trust Insights on Wealth and Worth 2016

[1] *http:/ (http://www.sriconference.com/about/what-is-sri/history-of-sri.html)*
http://www.inc.com/molly-reynolds/millennials-could-be-shaping-the-future-of-socially-responsible-investing.html
https://www.accenture.com/us-en/~/media/Accenture/Conversion-Assets/DotCom/Documents/Global/PDF/Industries_5/Accenture-CM-AWAMS-Wealth-Transfer-Final-June2012-Web-Version.pdf
"Sustainable Signals: The individual Investor Perspective" February 2015. Morgan Stanley Institute for Sustainable Investing.

Growing commitment to UNPRI / PRI - As implementation of responsible investing has increased, so has the number of signatories to the UN Principles for Responsible Investing (PRI). Since 2006, the number of signatories has grown from 100 to over 1600, suggesting investor interest has become much more significant. PRI works with a signatory network of international asset owners, investment managers and service providers to put a set of six voluntary principles into practice. Members publicly report their responsible investment activity for these principles, and in doing so, openly demonstrate commitment and promote the adoption and implementation by others. Investors are creating integration strategies in order to "walk the talk" to these six commitments.

Responsible Investing is a rapidly growing movement. It has established roots in history that date all the way back to biblical times; is evolving in modern times to reflect the political and social themes of today, and will be continually fueled by emerging investor demographics, increased corporate transparency, and available information. The evolution of responsible investing already is a multi-billion dollar market. There are multiple expressions of responsible investing that can align with your client's unique values and serve their needs.

The PRI has grown consistently since it began in 2006



www.unpri.org

To learn how to incorporate responsible investing into your business model, see Part II of Responsible Investing: A Three Part Series.

About Crossmark's 30 Year History

Crossmark Global Investments is an innovative investment management firm. The firm provides a full suite of investment management solutions to institutional investors, financial advisors and the clients they serve. We have a multi-decade legacy of specializing in responsible investment strategies for clients. Founded in 1987, the firm is headquartered in Houston, Texas. Additionally, Crossmark is the exclusive manager of the Crossmark Steward Funds, which is a fund family that applies an overarching values-based screening methodology to its suite of equity and fixed income funds, including its award-winning Steward Global Equity Income Fund - named Lipper's "Best Global Equity Income Fund" for the last four consecutive years.

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