

# Socially Responsible Investing

## Mountain View UMC Green Earth Team Presentation

Gary Schmitz  
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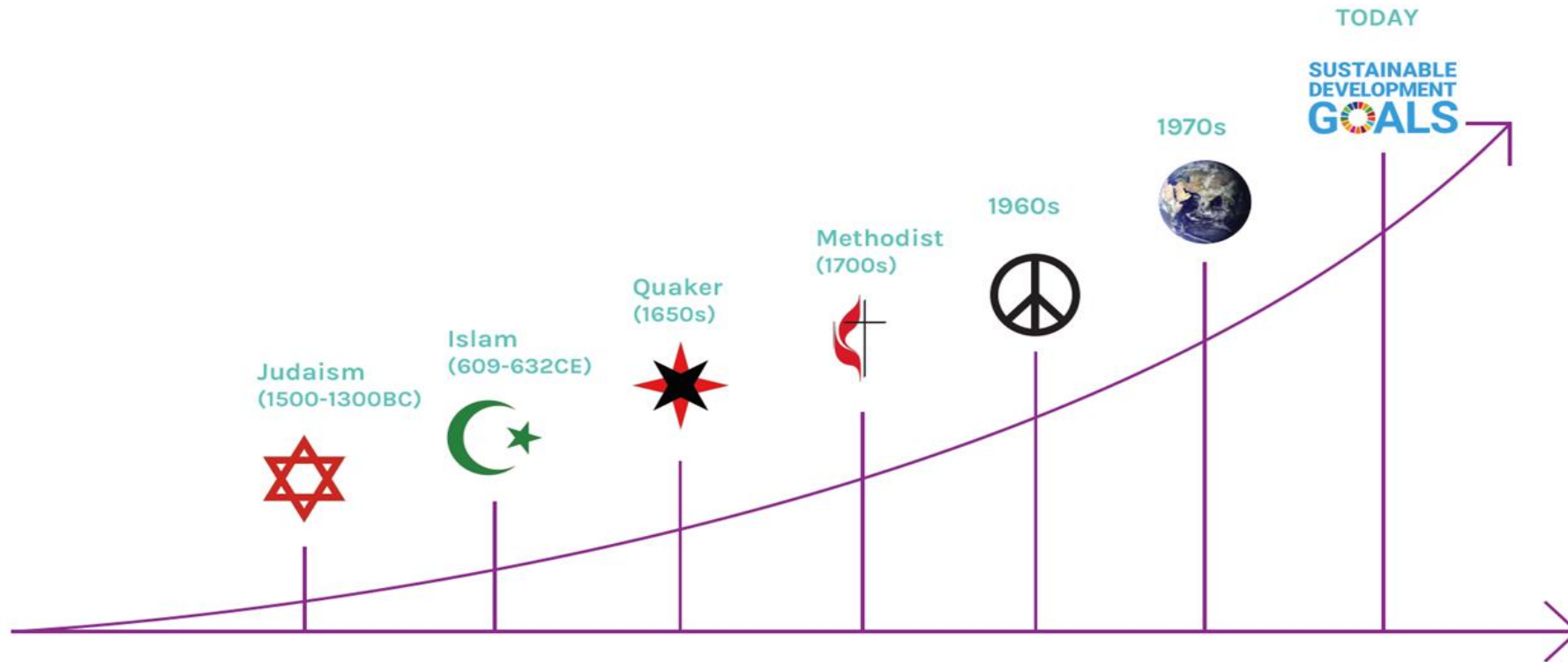
# Socially Responsible Investing

## Presentation Outline

1. Definition of Socially Responsible Investing (SRI)
2. History
3. Strategies
4. Examples (not making investment recommendations)
5. Investment Performance
6. Recent Update
7. Actions
8. Discussion

# Socially Responsible Investing

1. Definition: Socially Responsible Investing means deploying our investment funds to make both a financial return as well as to make a positive social impact. (NOT charitable giving)
2. SRI also referred to **as**: sustainable investing, responsible investing, impact investing, or ESG investing:
3. Environmental criteria consider how a company performs as a steward of nature.  
Social criteria examine how it manages relationships with employees, suppliers, customers, and the communities where it operates.  
Governance deals with a company's leadership, executive pay, audits, internal controls, and shareholder rights.

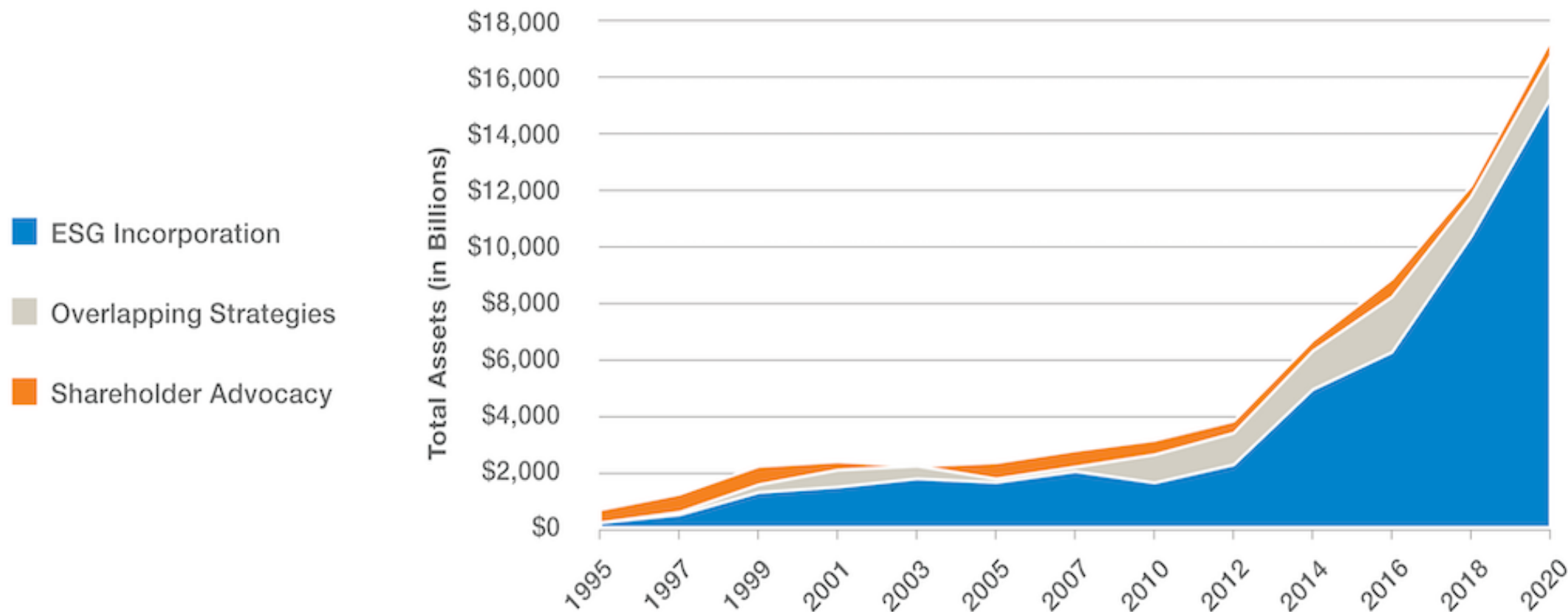


# HISTORY OF SOCIALLY RESPONSIBLE INVESTING

# Socially Responsible Investing

1. Mutual funds and related exchange traded funds (ETF) allow SRI investors to gain exposure to multiple companies across many sectors with a single investment.
2. SRI has been growing in popularity in recent history. Some studies suggest SRI makes up 20% - 30% of invested funds.
3. The number of SRI focused index funds have doubled over the past three years. Morningstar reported that there were 534 ESG index funds as of the end of the second quarter 2020.
4. Investors should carefully read fund prospectuses to determine the philosophies being employed by fund managers.
5. SRI mutual funds may have higher expenses due to the need for managers to research and monitor a company's social contribution.

# Sustainable Investing in the United States 1995–2020



SOURCE: US SIF Foundation.

# SRI Investment Strategies

1. Negative Screening: Avoid investing in the stocks and bonds of *offending* publicly traded companies;
2. Positive Screening: Only invest in the stocks and bonds of *positive* publicly traded companies;
3. Shareholder Activism: Use the ownership of the stocks and bonds of *offending* publicly traded companies to influence and alter management's behavior;
4. Direct Community Investment: Use financial investments to directly support the efforts of smaller private entities.

# Negative Screening Examples

## **Vanguard Social Index Fund (VFTAX)**

1. Excludes stocks of companies in the following industries: adult entertainment, alcohol, tobacco, weapons, fossil fuels, gambling, and nuclear power. Also excludes stocks not meeting U.N. global compact principles and that do not meet diversity criteria.
2. Number of Companies: 469. Expense Ratio: 0.14%.
3. In 2019 the Fund returned 33.96% beating the S&P's 31.49% and 93% of the 1,387 funds in its Large Blend category (Morningstar).

## **S&P 500 minus Energy (SPYX)**

1. Designed to measure the performance of companies in the S&P 500 Index that are "fossil fuel free," (companies that do not own fossil fuel reserves).
2. Number of Companies: 479. Excluded energy is 2.05% of SP 500. Expense Ratio: 0.27%.

## **Investors Choosing Individual Stocks and Bonds**

1. Build your own screens based on your own values (avoid the 100 worst polluters).
2. Direct Indexing



# Positive Screening Examples

## **Fidelity Select Environment & Alternative Energy Portfolio (FSLEX)**

1. Focuses on alternative and renewable energy, energy efficiency, pollution control, water infrastructure, waste and recycling technologies, or other environmental support services.
2. Number of Companies: 48. Expense Ratio: 0.85%.

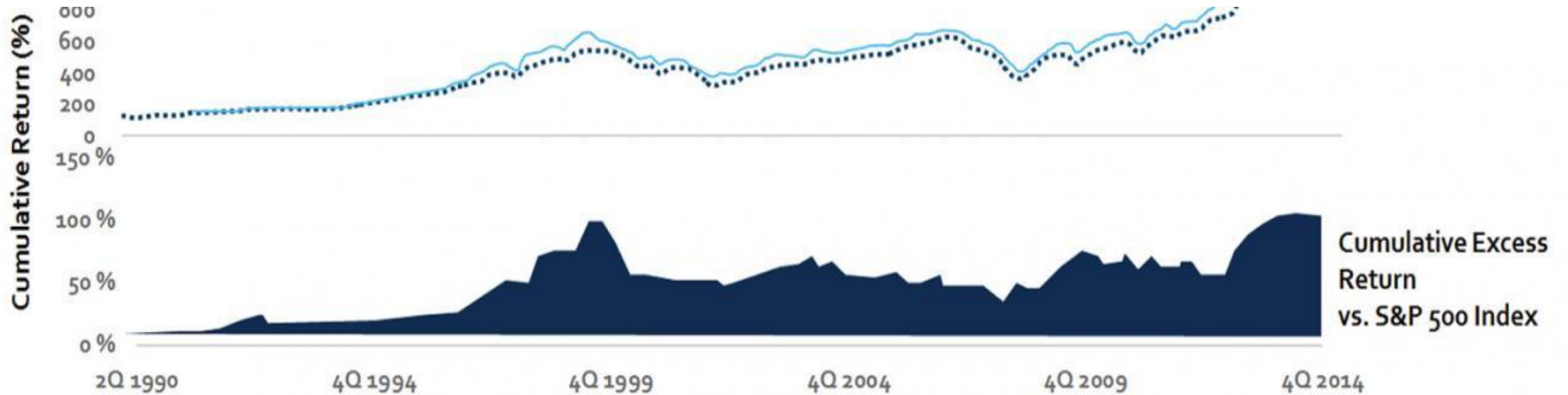
## **First Trust ISE Global Wind Energy Index Fund (FAN)**

1. An index designed to provide exposure to the performance of companies primarily engaged in the wind energy industry.
2. Number of Companies: 48. Expense Ratio: 0.73%.

## **Invesco Solar ETF (TAN)**

1. The Index is comprised of companies in the solar energy industry.
2. Number of Companies: 35. Expense Ratio: 0.71%.

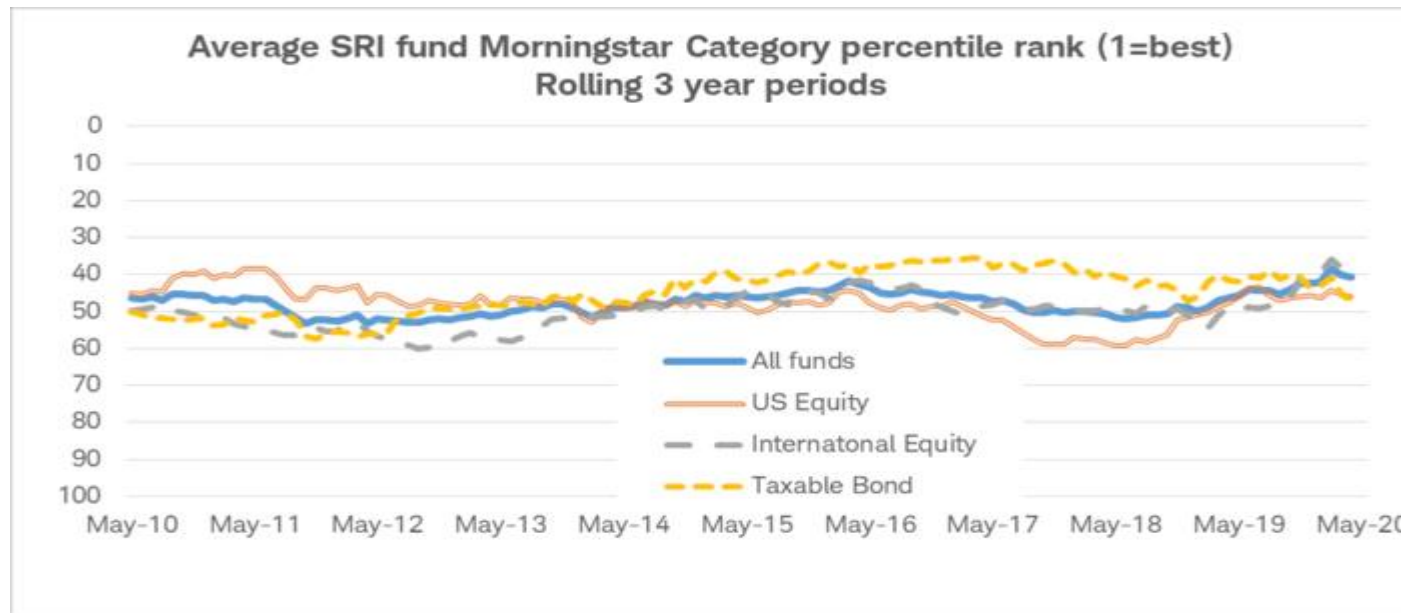
# SRI Performance (negative screen)



	Annualized Return (%)	Standard Deviation (%)	Sharpe Ratio	Beta vs. S&P 500 Index	Annualized Excess Return vs. S&P 500 (%)	Cumulative Excess Return vs. S&P 500 (%)	Alpha vs. S&P 500 Index (%)	Tracking Error vs. S&P 500 Index (%)
MSCI KLD 400 Social Index	10.14	16.80	0.42	1.03	0.45	102.36	0.19	2.68
S&P 500 Index	9.69	16.09	0.41	1.00	0.00	0.00	0.00	0.00

Source: Charles Schwab, JUNE 25, 2020

# SRI Performance (All Funds)



1. SRI funds have consistently ranked around the middle of their peer groups over the past one-, three-, five- and 10-year periods,
2. SRI funds are not riskier than other funds (based on fund's standard deviation).
3. SRI funds don't fall any more than other funds during market downturns.
4. Overall: there is no evidence that choosing SRI funds puts investors at a disadvantage when it comes to risk or returns.

# Shareholder Activism

1. SRI investors use their stock and bond ownership rights **to influence management** through policy change suggestions. Examples: attending shareholder meetings, filing proposals, writing letters to management, and exercising voting rights.
2. Strategy depends on corporate executives realizing that **dialogue** with investors is more effective than refusing to entertain an activist investor's proposals.
3. If dialogues and resolutions fail to get results, shareholders may **divest**, or sell off, their stock in protest. The threat of a divestment campaign can influence a corporation since it represents a potential drop in share price and loss of revenue.
4. Divestment is used as a **last resort** of shareholders, as it signals an end to all attempts to negotiate.

# Leading ESG Issues 2018-2020, by Number of Shareholder Proposals Filed



SOURCE: US SIF Foundation, ISS ESG, Sustainable Investments Institute.

# Shareholder Activism Examples

1. In 2017, three of the largest asset managers in America (BlackRock, State Street, and Vanguard) voted proxies for resolutions requesting ExxonMobil and Occidental Petroleum compile reports analyzing how future climate change regulations would change their businesses. Both have released reports in line with shareholder requests.
2. Following a campaign of constructive engagement, 99.9% of shareholders voted in favor of Barclays' new climate policy, which includes a commitment to become net zero by 2050 and align all its financing activities to the Paris climate goals.
3. Westpath co-filed a shareholder resolution asking Dakota Access Pipe Line part-owner Enbridge to provide a report on its due diligence process for identifying and addressing social and environmental risks. Result: Westpath's resolution received 30% support from investors, leading Enbridge to amend its policies related to indigenous rights.
4. Criticism of Westpath by advocates of divestment (Greenfaith).

# Community Direct Investment (CDI)

The purpose CDI is to help poor and underserved people and places. CDI is not gifts or philanthropy - both return of capital and return on capital are expected.

## **Challenges:**

1. Non-standard investment vehicles: CDI doesn't generally involve publicly traded securities and regulated mutual funds. Instead, CDI investments include limited partnerships or unregulated promissory notes.
2. Low returns: While some CDI achieve market and above rates of return, most have low returns that essentially subsidize investment in poor or hard-to-serve markets.
3. Limited liquidity: Many CDI require holding funds for at least 12 months - contrast to "point and click" portfolio turnover with publicly traded securities.

# CDI Examples

- 1. Switch Banks:** Smaller banks and credit unions strengthen local communities by offering loans for individual borrowers and small businesses.. They are less likely to fund fossil fuel projects. Example: Elevations Credit Union Home Energy Loans support solar energy and efficiency loans.
- 2. Methodists Helping Methodists Fund:** The Mountain Sky United Methodist Foundation provides capital loans to United Methodist Churches throughout the region. Similar to CDs, the Fund offers above-average interest rates (from 0.7% to 2.32% depending on term and amount). Example: Mt. View solar panels.
- 3. CDI Fixed Income Mutual Funds** (few currently exist). Examples: The Domini Impact Bond Fund seeks impact across a broad range of social and environmental issues that affect communities. Number of Bonds Held: 434. Expense Ratio: 0.87%.
- 4. Crowd Funding:** Kiva crowdfunds loans for borrowers in 80+ countries who often are excluded from affordable sources of credit. Individual Kiva lenders do not receive interest from loans. Kiva loans have a historical repayment rate of about 97%.



# Recent Update

1. In October 2020, the US Department of Labor (DOL) adopted a rule changing standards for ESG investments in 401(k) plans. It requires Employee Retirement Income Security Act of 1974 (ERISA) plan fiduciaries select investments based solely upon risk-adjusted economic considerations.
2. While DOL did not ban fiduciaries from selecting ESG funds, advisers will face a higher hurdle based upon an ESG product's financial performance and risks in order to justify selecting it over a traditional fund.
3. Selecting ESG funds could be justified, since ESG-focused funds outperformed standard indices in the past.
4. Lawmakers could reverse the DOL rule under the Congressional Review Act, which allows lawmakers and the president to repeal a federal agency's rule if they vote to do so within 60 legislative days.
5. Questions raised about whether the DOL followed the appropriate protocols under the Administrative Procedure Act.
6. 8,737 comments filed during the rulemaking process, with 95% opposing the rule.

# Actions

1. ***All persons interested in SRI:*** Learn more about SRI (see attached links).
2. *Current customers of large national banks:* Consider smaller local banks and credit unions for your banking needs.
3. *Current CD investors:* consider CDs from smaller local banks or consider Methodists Helping Methodists.
4. *Current Mutual fund investors:* consider asking current fund families if they offer broad-based “negative screen” SRI funds.
5. *Current investors in focused ETFs:* consider focused “positive screen” SRI funds.
6. *Current investors in individual stocks:* Consider imposing your own SRI screen on stock selection (example: 100 worst polluting companies).
7. **All:** Be grateful for your good fortune of having to invest. SRI should not replace charitable giving (Wesley: Give all you can).

# Related Links

- **General SRI background information:** <https://www.investopedia.com/terms/s/sri.asp>
- <https://www.ssga.com/library-content/pdfs/etf/spdr-esg-investing-tipping-point-to-turning-point.pdf>
- **Vanguard Social Index Fund** <https://investor.vanguard.com/mutual-funds/profile/overview/vftax>
- **S&P 500 Index minus Energy** [https://www.proshares.com/funds/spxe.html?gclid=Cj0KCQiA0MD\\_BRCTARIsADXoopbZxf\\_SkPHGVV04aRJZIsxt1PZ3scuQ0iW1neTgKZks\\_mKMXzEk98kaAs3KEALw\\_wcB](https://www.proshares.com/funds/spxe.html?gclid=Cj0KCQiA0MD_BRCTARIsADXoopbZxf_SkPHGVV04aRJZIsxt1PZ3scuQ0iW1neTgKZks_mKMXzEk98kaAs3KEALw_wcB)
- **Fidelity Select Environment and Alternative Energy Portfolio (FSLEX)** <https://fundresearch.fidelity.com/mutual-funds/summary/316390574>
- **First Trust Global Wind Energy ETF (FAN)** <https://www.ftportfolios.com/retail/etf/etfsummary.aspx?Ticker=FAN>
- **Invesco Solar ETF (TAN)** <https://www.invesco.com/us/financial-products/etfs/product-detail?audienceType=Investor&ticker=TAN>
- **Methodists Helping Methodists** <https://www.mountainskyumf.org/faith-based-investments-giving/>

# Related Links (continued)

- **Elevations Energy Loans:** [https://www.elevationscu.com/loans/energy-loans?utm\\_campaign=Room214\\_energyloans\\_2020&gclid=Cj0KCQiA0MD\\_BRCTARIsADXoopabZHxk\\_EkrLrKiTk3wOO91zJPX3TYwz6SdYLbpe717zUcGN6QTq6gaAt-WEALw\\_wcB](https://www.elevationscu.com/loans/energy-loans?utm_campaign=Room214_energyloans_2020&gclid=Cj0KCQiA0MD_BRCTARIsADXoopabZHxk_EkrLrKiTk3wOO91zJPX3TYwz6SdYLbpe717zUcGN6QTq6gaAt-WEALw_wcB)
- **Domini Impact Bond Fund:** <https://www.domini.com/domini-funds/domini-impact-bond-fund#:~:text=The%20Domini%20Impact%20Bond%20Fund%20seeks%20impact%20across,credit%20and%20rental%20properties%2C%20especially%20in%20low-income%20communities.>
- **Kiva Information:** <https://www.kiva.org/about/how>
- **Westpath Sustainable Investment:** <https://www.wespath.org/retirement-investments/investment-information/investment-philosophy/sustainable-investment>
- **100 worst polluters:** <https://www.peri.umass.edu/top-100-polluter-indexes>
- **Switch banks to slow climate change:** <https://www.popsoci.com/story/environment/how-to-bank-green-environment/>
- **Faith based fossil fuel divestment:** <https://greenfaith.org/take-action/divest-and-invest-now/>