Socially Responsible Investing:
Feeling Good about Good Earnings

Presented by:

Divam N. Mehta, CFP®, ChFC®, MBA

President & Financial Advisor
Outline

- What does SRI Mean?
- Types of Responsible Investing
- Timeline of SRI
- Who wants SRI?
- Practical applications for SRI
- Conclusion
- Q&A
What comes to mind when you think about socially responsible investing (SRI)?
ESG defined: Environmental, social & Governance

**ENVIRONMENTAL**
- Climate change
- Natural resource usage, including water
- Waste management
- Deforestation

**SOCIAL**
- Employee relations
- Diversity
- Supply chain management
- Health and safety

**GOVERNANCE**
- Board quality
- Executive compensation
- Public policy
- Business ethics (bribery and corruption)
Timeline of SRI

1970s
- Investors align around key social concerns (i.e. South Africa, Vietnam War)
- Pioneering institutions are created (IRRC, ICCR)

1980s
- Dedicated industry networks are formed (Ceres, USSIF)
- Increased emphasis on corporate governance and the environment

1990s
- First social indices launched and universe of Socially Responsible Investing (SRI) funds expands
- Investors advance business case for sustainability and reporting (i.e. GRI)

2000s
- Investor convergence on climate issues
- Global investor networks formed (i.e. PRI, Global Impact Investing Network)

2010s
- RI approaches expand across asset classes
- “Mainstreaming” of ESG data and reporting
- Greater focus on outcomes (i.e. UN Sustainable Development Goals)
Who cares about SRI?

Demand from Individual Investors

“I want my investments to make a positive impact on society.”

- 90% of Millennials Agree
- 81% of Females Agree
- 77% of All Groups Agree

I am interested in ESG investing without sacrificing financial performance

90% millennials vs. 73% other generations; Second Annual Practice Management Study, Responsible Investment: Advisor and investor interest is rising. However old myths still exist; TIAA Global Asset Management, 2016
## No longer a niche

<table>
<thead>
<tr>
<th></th>
<th>Total Investors</th>
<th>Millennials</th>
<th>Non-Millennials</th>
</tr>
</thead>
<tbody>
<tr>
<td>I tend to <strong>recycle everyday</strong></td>
<td>88%</td>
<td>93%</td>
<td>86%</td>
</tr>
<tr>
<td>I’d like to work for an employer that makes a positive <strong>social impact</strong> on the world</td>
<td>76%</td>
<td>91%</td>
<td>70%</td>
</tr>
<tr>
<td>I’d like to work for an employer that makes a positive <strong>environmental impact</strong> on the world</td>
<td>76%</td>
<td>92%</td>
<td>70%</td>
</tr>
<tr>
<td>I prefer to shop for brands that have <strong>environmentally sustainable</strong> business practices</td>
<td>72%</td>
<td>90%</td>
<td>64%</td>
</tr>
</tbody>
</table>

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Comprehensive Financial Planning and Wealth Management

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Increased Participation

2016 34% 2017 49%

Investor participation

In one year a 15 percentage-point increase in participation

According to Nuveen Fund’s Third Annual Responsible Investing Survey
US Asset Growth

$8.72T

Assets including ESG approaches within the US as of 2016¹

133%

Growth rate of aligned RI assets in the US, 2012-2016²

1 of 5

Dollars of professionally managed investments in the US are aligned with an RI approach³

## Performance

*Index average annual returns (as of 12/31/2016)*

<table>
<thead>
<tr>
<th>Index Description</th>
<th>1 Yr</th>
<th>3 Yr</th>
<th>5 Yr</th>
<th>10 Yr</th>
</tr>
</thead>
<tbody>
<tr>
<td>MSCI USA IMI ESG Leaders</td>
<td>12.92%</td>
<td>7.53%</td>
<td>13.64%</td>
<td>6.74%</td>
</tr>
<tr>
<td>MSCI KLD 400 Social</td>
<td>10.87%</td>
<td>8.03%</td>
<td>14.19%</td>
<td>6.97%</td>
</tr>
<tr>
<td>Calvert U.S. Large Cap Core Responsible</td>
<td>11.03%</td>
<td>8.93%</td>
<td>15.66%</td>
<td>7.39%</td>
</tr>
<tr>
<td>FTSE4Good US</td>
<td>12.67%</td>
<td>10.68%</td>
<td>16.28%</td>
<td>7.05%</td>
</tr>
<tr>
<td>DJSI U.S.</td>
<td>14.34%</td>
<td>8.63%</td>
<td>13.00%</td>
<td>5.96%</td>
</tr>
</tbody>
</table>

**Range top/bottom performer**

<table>
<thead>
<tr>
<th>Index</th>
<th>1 Yr</th>
<th>3 Yr</th>
<th>5 Yr</th>
<th>10 Yr</th>
</tr>
</thead>
<tbody>
<tr>
<td>S&amp;P 500</td>
<td>11.91%</td>
<td>8.84%</td>
<td>14.60%</td>
<td>6.92%</td>
</tr>
<tr>
<td>Russell 3000</td>
<td>12.68%</td>
<td>8.40%</td>
<td>14.61%</td>
<td>7.05%</td>
</tr>
</tbody>
</table>

Based on daily returns for periods ending 12/31/2016.

Sources: FactSet, Morningstar, MSCI, and TIAA
## Risk Reduction

### Standard deviation and Sharpe ratios: RI indexes and broad market benchmarks

<table>
<thead>
<tr>
<th>Index</th>
<th>Average Annualized Standard Deviation (10 Yr)</th>
<th>Spread*** vs. benchmark for 10-Yr period (%)</th>
<th>Average Annualized Sharpe ratio (10 Yr)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Calvert U.S. Large Cap Core Responsible*</td>
<td>17.55</td>
<td>0.10</td>
<td>0.70</td>
</tr>
<tr>
<td>DJSI U.S.**</td>
<td>16.21</td>
<td>0.72</td>
<td>0.63</td>
</tr>
<tr>
<td>FTSE4Good U$**</td>
<td>17.20</td>
<td>0.25</td>
<td>0.73</td>
</tr>
<tr>
<td>MSCI KLD 400 Social**</td>
<td>16.75</td>
<td>0.20</td>
<td>0.86</td>
</tr>
<tr>
<td>MSCI USA IMI ESG Leaders*</td>
<td>17.40</td>
<td>0.05</td>
<td>0.66</td>
</tr>
<tr>
<td>RI Index average</td>
<td>17.02</td>
<td>0.26</td>
<td>0.69</td>
</tr>
<tr>
<td>S&amp;P 500</td>
<td>16.94</td>
<td></td>
<td>0.71</td>
</tr>
<tr>
<td>Russell 3000</td>
<td>17.45</td>
<td></td>
<td>0.69</td>
</tr>
</tbody>
</table>

* Benchmark: Russell 3000;  
** Benchmark: S&P 500. Based on weekly returns for 10-year period through 12/30/2016;  
*** Spread equals index value minus benchmark value. Spread averages and maximums are absolute values.  
Sources: FactSet, Morningstar, MSCI, and TIAA
ESG Score Methodology

DATA
1000 data points on ESG policies, programs, and performance; Data on 65,000 individual directors; 13 years of shareholder meeting results

EXPOSURE METRICS
- How exposed is the company to material issues?
- Based on over 80 business and geographic segment metrics

MANAGEMENT METRICS
- How is the company managing each key issue?
- 600 policy/program metrics, 240 performance metrics, 90 Governance Key Metrics

SOURCES
- 100+ specialized datasets (government, NGO, models)
- Company disclosure (10-K, sustainability report, proxy report)
- 1600+ media sources monitored daily (global and local news sources, government, NGO)

KEY ISSUE SCORES & WEIGHTS
- 37 Key Issues selected annually for each industry and weighted based on MSCI’s mapping framework

ESG RATING (AAA-CCC)
- Issue scores and weights combine to overall ESG rating relative to industry peers
- E, S, G scores also available

INSIGHT
- Specialized ESG research team provides additional insight through:
  - Company reports
  - Industry reports
  - Thematic reports
  - Analyst calls & webinars

DATA OUTPUTS
- Access to selected underlying data
- Ratings, scores, and weights on 350,000 securities
- 17 years of history

Source: MSCI ESG Ratings Methodology Executive Summary
# ESG Score

<table>
<thead>
<tr>
<th>Letter Rating</th>
<th>Final Industry-Adjusted Company Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>AAA</td>
<td>8.6* - 10.0</td>
</tr>
<tr>
<td>AA</td>
<td>7.1 – 8.6</td>
</tr>
<tr>
<td>A</td>
<td>5.7 – 7.1</td>
</tr>
<tr>
<td>BBB</td>
<td>4.3 – 5.7</td>
</tr>
<tr>
<td>BB</td>
<td>2.9 – 4.3</td>
</tr>
<tr>
<td>B</td>
<td>1.4 – 2.9</td>
</tr>
<tr>
<td>CCC</td>
<td>0.0 – 1.4</td>
</tr>
</tbody>
</table>

Source: MSCI ESG Ratings Methodology Executive Summary
Case Study

Client Profile:
Male
37 years old
Married/1 Child
Physician

Exclusions Required:
- Non-vegetarian food companies (including eggs)
- Honey companies
- Restaurants
- Hotels
- Dairy industry
- Clothing/textile companies using Leather
- Companies making feather/fur products
- General consumer products companies using animal products or testing (shampoo, gel, toothpaste)
- Shoe companies using Leather
- Fishing/Hunting industry
- Furniture companies making leather products
- Entertainment companies/theme parks & circus using animals (such as seaworld/circus/zoos)
- Pharmaceutical
- Biotech (which conduct animal testing)
- Tobacco
- Alcohol
- Casinos
- Weapons/Guns
- Coal mining companies
- Pesticides/pest control chemical companies
- General retailers
- Grocery chains
- Car companies using leather seats
- Coal mining companies
- Oil & Gas companies (prefer renewables & clean energy companies if possible)
- Car rental business
- For Companies with Mixed Assets (Such as GE) which operate in multiple sectors: Apply 80/20 rule when they are clearly segregated by industry (It's ok to have them as long as percent revenue from must avoid segment remains below 20% of the overall revenue)
Conclusion

- SRI is subjective in the minds of many.
- Adds value not only altruistically, but also intrinsically.
- SRI demand and inclusion is on the rise.
- Investing with your conscience.
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Investments in socially responsible funds are subject to the risk that because social criteria excludes securities of certain issuers for non-financial reasons, investors may forgo some market opportunities available to those that don't use these criteria. Past performance does not guarantee future results.