Investment Insights

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The Model Wealth Program
Principle-Based Investing

"Principal-based investing means we focus on investment principals that have stood the test of time rather than basing our decisions on short-term market predictions. Our goal is to identify a small number of experienced managers who offer the potential to outperform their peers over a long period of time. Our approach is to combine a well-defined quantitative and qualitative due diligence process with proprietary construction tools to build, manage and monitor our client's portfolios."

The Model Wealth Program is a managed fee-based investment program, available through Cornerstone Wealth Management, LLC. The MWP investment team has developed sophisticated long-term strategies in an effort to manage and control risk, to help investors pursue their financial goals. For more information about the program, contact your Cornerstone Wealth Management representative.

Socially Responsible Investing

Doing Well While Doing Good

Socially responsible investing (SRI) is an investment discipline that attempts to generate competitive long-term financial returns, while at the same time achieving a positive societal impact. Socially responsible investors aim for strong investment performance, but also believe their money should be invested in a manner that is consistent with their own values regarding environmental, social and corporate governance (ESG) practices. A growing body of research shows a strong link between strong ESG practices and financial performance. That's one reason why SRI is one of the fastest-growing segments of the investment industry. According to the US SIF Foundation's report on Sustainable and Responsible Investing Trends in the United States, as of year-end 2016, the latest data available, more than one out of every five dollars under professional management in the United States—$8.72 trillion or more—was invested according to SRI strategies.

SRI investors, like all investors, seek a competitive return on their investments. They don't feel it is necessary to sacrifice performance in order to achieve social goals.

Terminology

Just as there is no single approach to SRI, there is no single term to describe it. SRI has also been called, "community investing", "ethical investing", "impact investing", and "ESG (environmental, social and corporate governance)." Traditionally, SRI investors have focused on one or both of two strategies. The first is ESG incorporation, the consideration of environmental, community, other societal and corporate governance (ESG) criteria in investment analysis and portfolio construction across a range of asset classes. An important segment, community investing, seeks explicitly to finance projects or institutions that will serve poor or underserved communities in the United States and overseas. The second strategy, for those with shares in publicly-traded companies, is filing shareholder resolutions and practicing other forms of shareholder activism to encourage business practices and to allocate capital for social and environmental benefits across the economy.

From 2013 to 2018, sustainable, responsible and impact investing enjoyed a growth rate of more than 25 percent, increasing from $4 trillion in 2013 to over $12 trillion today. More than one out of every five dollars under professional management in the United States today—26% of the $46.6 trillion in total assets under management tracked by Cerulli Associates— is involved in socially responsible investing. (Source: US SIF Foundation 2018)

"Integrating deeply held personal or ethical concerns into the decision-making process, investors can bring about a world that values and supports human dignity and environmental sustainability."

- Amy Domini

Key Takeaways:

- Socially responsible investing (SRI) is an investment discipline that attempts to generate competitive long-term financial returns, while at the same time achieving a positive societal impact.
- Socially responsible investors aim for strong investment performance, but also believe their money should be invested in a manner that is consistent with their own values regarding environmental, social and corporate governance (ESG) practices.
- A growing body of research shows a strong link between strong ESG practices and financial performance.
- According to the US SIF Foundation's report on Sustainable and Responsible Investing Trends in the United States, as of year-end 2018, the latest data available, more than one out of every five dollars under professional management in the United States—$12 trillion or more—was invested according to SRI strategies.

Qualities our managers look for in Socially Responsible Companies

Who are Socially Responsible Investors?

Socially responsible investors include small investors, high net worth investors, universities, foundations, pension funds, non-profit organizations, and religious institutions. Practitioners can be found throughout the United States.

Examples include:

- Individuals who invest in companies that offer good labor and environmental practices
- Credit Unions and Community Development Banks that have a specific mission of serving low and middle-income communities
- Foundations that support community development loan funds and other high social impact investments consistent with their mission
- Hospitals and medical schools that refuse to invest in companies that offer alcohol, tobacco or firearms
- Religious institutions that file shareholder resolutions to urge companies in their portfolios to meet strong ethical and governance standards
- Venture capitalists that identify and develop companies that produce environmental services, or create jobs in low-income communities
- Real estate developers that help develop or retrofit residential and commercial buildings to high energy efficiency standards

According to the US SIF Foundation, the number of investment managers that are dedicated to SRI has grown dramatically in recent years. As of year-end 2018, the number of SRI managers in the United States grew to over 300 management firms and 1,043 community investing institutions.

SRI and the Environment

Consideration of specific environmental criteria has grown substantially, a reflection both of increased investor concern about risks related to climate change and of managers focusing strategies on low-carbon alternatives and climate solutions. As of year-end 2016, climate change criteria shape the investment of $3 trillion in assets under management, a more than five-fold increase since 2014. (Source: US SIF Foundation 2018)

Approximately $12 trillion out of $46.6 trillion invested with professional managers in the United States is currently managed under a socially-responsible mandate.[1]

Performance

SRI investing spans a wide variety of investments and asset classes, embracing not only public equity (stocks) but also cash, fixed income and international investments. SRI investors, like all investors, seek a competitive return on their investments. They don't feel it is necessary to sacrifice investment performance in order to achieve social goals. Admittedly, in the early days of SRI, there were only a handful of managers that specialized in the field, and performance tended to be a bit uneven. Today, some of the large firms in the investment industry have SRI offerings and there are a number of strong firms to choose from. There are also a number of passive, lower-cost investment products that are available that can help diversify the portfolio and reduce the impact of one or two managers having a bad year.

Several research studies have shown that companies with strong corporate social responsibility practices are sound investments. Studies with such findings have come from Envestnet, PMC, Deutsche Bank and Mercer among others. For example, a 2017 report from Nuveen TIAA Investments titled Responsible Investing: Delivering Competitive Performance found "no statistical difference in returns compared to broad market benchmarks, suggesting the absence of any systematic performance penalty. Moreover, incorporating environmental, social and governance criteria in security selection did not entail additional risk."

1. Source: US SIF Foundation

It's important to remember that it may be impractical for a socially responsible investor to get everything they want. No portfolio is a perfect reflection of the investor's wishes because investors have different values and beliefs. Meir Statman, the Glenn Klimeck Professor at the Leavey School of Business at Santa Clara University, studied a variety of different screening processes and found that the process with the greatest positive impact on returns came from a best-in-class screening approach, specifically in the areas of community, environment and employee relations. This is the approach we employ when managing our Socially Responsible Investing Portfolio we offer thru the Model Wealth Program.

Important Disclosures

The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual. All performance referenced is historical and is no guarantee of future results. All indices are unmanaged and may not be invested into directly. Economic forecasts set forth may not develop as predicted and there can be no guarantee that strategies promoted will be successful.

There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not protect against market risk.
Stock and mutual fund investing involves risk including loss of principal.

International investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors.

Fixed income investments are subject to market and interest rate risk if sold prior to maturity. Values will decline as interest rates rise and bonds are subject to availability and change in price. Rebalancing a portfolio may cause investors to incur tax liabilities and/or transaction costs and does not assure a profit or protect against a loss. Strategies may not achieve their investment objectives.

Hypothetical examples are not representative of any specific situation. Your results may vary. The hypothetical rates of return used do not reflect the deduction of fees and charges inherent to investing.

The Model Wealth Program: SRI Portfolio

Our Socially Responsible Investing client portfolio strategy is well-diversified among the managers we feel offer strong potential within the SRI universe of managers. The portfolio is diversified among managers in the three major asset classes: U.S. equity, international equity, and fixed income. The portfolio is also balanced between active and passive managers, as well as managers that vary by style. We believe building a portfolio of multiple managers provides the opportunity for diversity of opinion and can reduce the impact of one manager's miscalculations or mistakes. We also rebalance the portfolio when market conditions push the portfolio out-of-balance in an effort to maintain a steady level of risk consistent with your long-term goals and objectives.

We offer five different choices for investors with varying risk tolerance and need for current income: Aggressive Growth, Growth, Growth & Income, Income with Moderate Growth, and Income with Capital Preservation. We believe a professionally-managed advisory account can help take the emotions out of the investment decision-making process, and offers an attractive strategy for investors with long-term goals, like saving for, or investing in, retirement.

We believe socially-responsible investing is one of the most exciting, fastest-growing opportunities in the investment world. To learn more about socially responsible investing, make an appointment with your financial advisor today.

Cornerstone
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