

# Investment THE VOICE OF INDEPENDENTS ADVISOR

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## ESG HORIZONS

By George P. Schwartz, CFA

### Responsible Investing Isn't Limited to ESG

Advisors would do well to include morally responsible investing in their array of SRI offerings

**E**SG investing, sustainable investing, impact investing all fall under the umbrella of socially responsible investing, or SRI, which has received attention over the past few years as a wide range of investors have realized that they can invest according to their personal beliefs potentially without sacrificing returns or performance.

As advisors look to grow their practices, understanding SRI, and what it means to different people, can be an effective way to attract new clients and deepen relationships with existing clients.

Recent data supports the assertion that investors who care about a range of societal issues — from the environment to abortion to gun control — are expressing their convictions through the investment choices they make. In 2018, Morningstar reported that assets under management in portfolios that use various approaches to sustainable and values-based investing have grown to an estimated \$23 trillion globally — an increase of more than 600% over the past decade.

The latest data from US SIF, the Forum for Sustainable and Responsible Investment, show that at the end of 2016, \$8.72 trillion in assets in the U.S. qualified as social and impact investing. That total is up from less than \$7 trillion at the end of 2014 and roughly \$4 trillion at the end of 2012.

SRI investing can work two ways. Some funds actively choose investments that fit precisely into the fund's scope; for instance, an environmentally responsible fund may choose companies with promising energy-efficient technologies. Other funds, with a moral or ethical focus — what we call morally responsible investment (MRI) — will actively screen out and exclude companies that are contrary to the fund's remit.

#### WHEN SRI STARTED

The genesis of SRI can be traced to 1967, during the height of the Vietnam War. Luther Tyson and Jack Corbett, who worked on peace, housing, and employment issues for a national board of the United Methodist Church, received a letter from a woman who wanted to invest her pension money without supporting war-related industries. Tyson and Corbett tackled the problem and four years later they teamed up with investment managers Paul and Anthony Brown



to launch Pax World Fund, which was the first mutual fund to use social as well as financial criteria in making its investment decisions.

The more recent explosion in both SRI and MRI is a trend that is growing, not only with millennials, but across all demographic groups. As someone who has long believed that there should be a moral and ethical component to investing, I'm encouraged to see individual and institutional investors consciously choose to put their money behind causes and religious principles that are paramount to them.

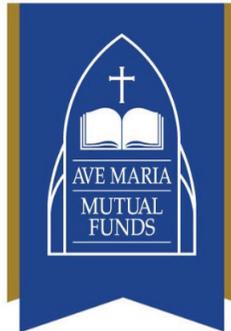
One challenge with MRI is finding a category for comparative rankings. The Morningstar Sustainability Rating, for example, uses an ESG rating from Sustainalytics to evaluate portfolios and compare them to their peers. It makes a distinction between these funds and what they refer to as "values-based" funds, which tend to use exclusionary screens to align themselves with religious doctrines as part of their investment due diligence. Because a ranking such as Morningstar's leaves out a substantial number of what can be thought of as MRI opportunities, investors who rely on such metrics are really not exposed to the entire universe of investment options.

As advisors look to attract new clients to their practices, they may find that a growing number of investors care about MRI as opposed to ESG/SRI. As such, advisors have an opportunity to be of even greater service and form a more meaningful relationship with clients. **IA**

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*George P. Schwartz, CFA, is Chairman and CEO of the Ave Maria Mutual Funds — the largest family of Catholic mutual funds in the U.S with over \$2.1 billion in AUM and a pioneer of MRI with the launch of the Ave Maria Catholic Values Fund (later renamed — Ave Maria Value Fund) on May 1, 2001.*

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## IMPORTANT INFORMATION FOR INVESTORS

**ESG Investing** - Environmental, Social and Governance refers to a set of criteria of standards for a company's operations that socially conscious investors use to screen investments.

**SRI Investing** - Socially responsible investing is any investment strategy which seeks to consider both financial return and social/environmental good to bring about a positive change.

The Morningstar Sustainability Rating is a measure of how well the holdings in a portfolio are managing their environmental, social, and governance, or ESG, risks and opportunities relative to their Morningstar Category peers. The rating is a holdings-based calculation using company-level ESG analytics from Sustainalytics, a leading provider of ESG research. It is calculated for managed products and indexes globally using Morningstar's portfolio holdings database. The Morningstar Sustainability Rating is derived from the Morningstar Portfolio Sustainability Score, which is calculated based on company-level ESG scores and company involvement in ESG-related controversies. Sustainalytics provides ESG scores on more than 4,500 companies globally, which are evaluated within global industry peer groups. In addition, Sustainalytics tracks and categorizes ESG-related controversial incidents on more than 10,000 companies globally.

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