



The D³ of ESG Investing

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Head of Advisory Distribution

Green Investing

SRI

ESG

Investing with IMPACT

Sustainable Investing

Mission Driven

Themed

Socially Responsible











The D³ of ESG Investing

Defining

Demystifying

Debunking



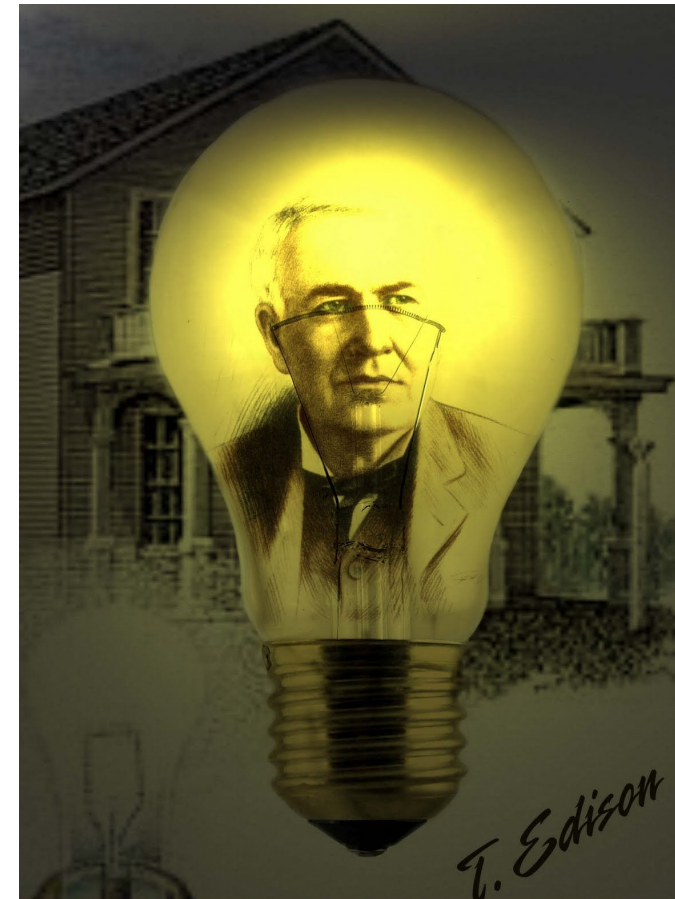
Buyer Beware
Lessons from Aristotle Credit



1806 - Mason Locke Weems

Debunk

DEBUNK



1809 - Humphry Davy

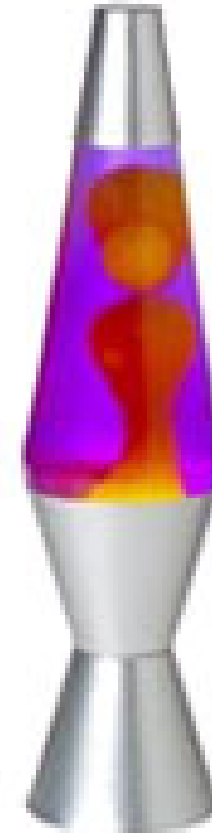
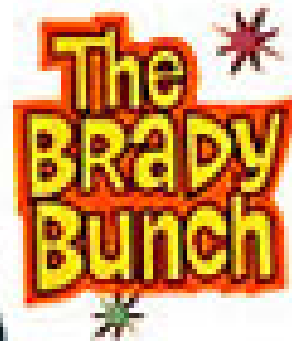
1835 - James Bowman Lindsay

1879 – Thomas Alva Edison



MYTH #1: Sustainable Investing is Just the Latest Fad!

FADS OF THE 1970s





The Evolution of Sustainable & Responsible Investing

1898:

FRIENDS FIDUCIARY
CORPORATION

Financial services for Quaker organizations since 1898



1960s & 1970s: Civil rights, antiwar, feminism

1977: Sullivan Principles of Action & Divestment

1977: Launch of first Socially Responsible mutual fund

1980s: Pollution, environment, governance



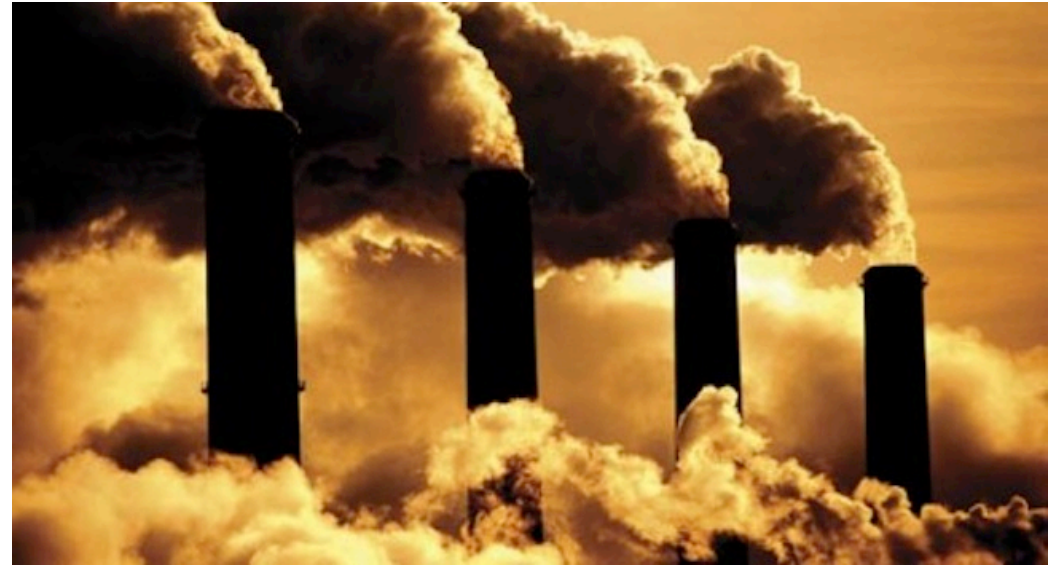
Source: UN PRI, Pinterest, independent.co.uk, Daily Express



The Evolution of Sustainable & Responsible Investing

1990s to Now:

- **Climate Change**
- **Fossil Fuels**
- **Executive Pay**
- **Use of Toxic Chemicals & Disposal**
- **Tobacco**
- **Water supplies**
- **And so on...**





UNITED NATIONS: 2015, 193 Countries



SUSTAINABLE DEVELOPMENT GOALS

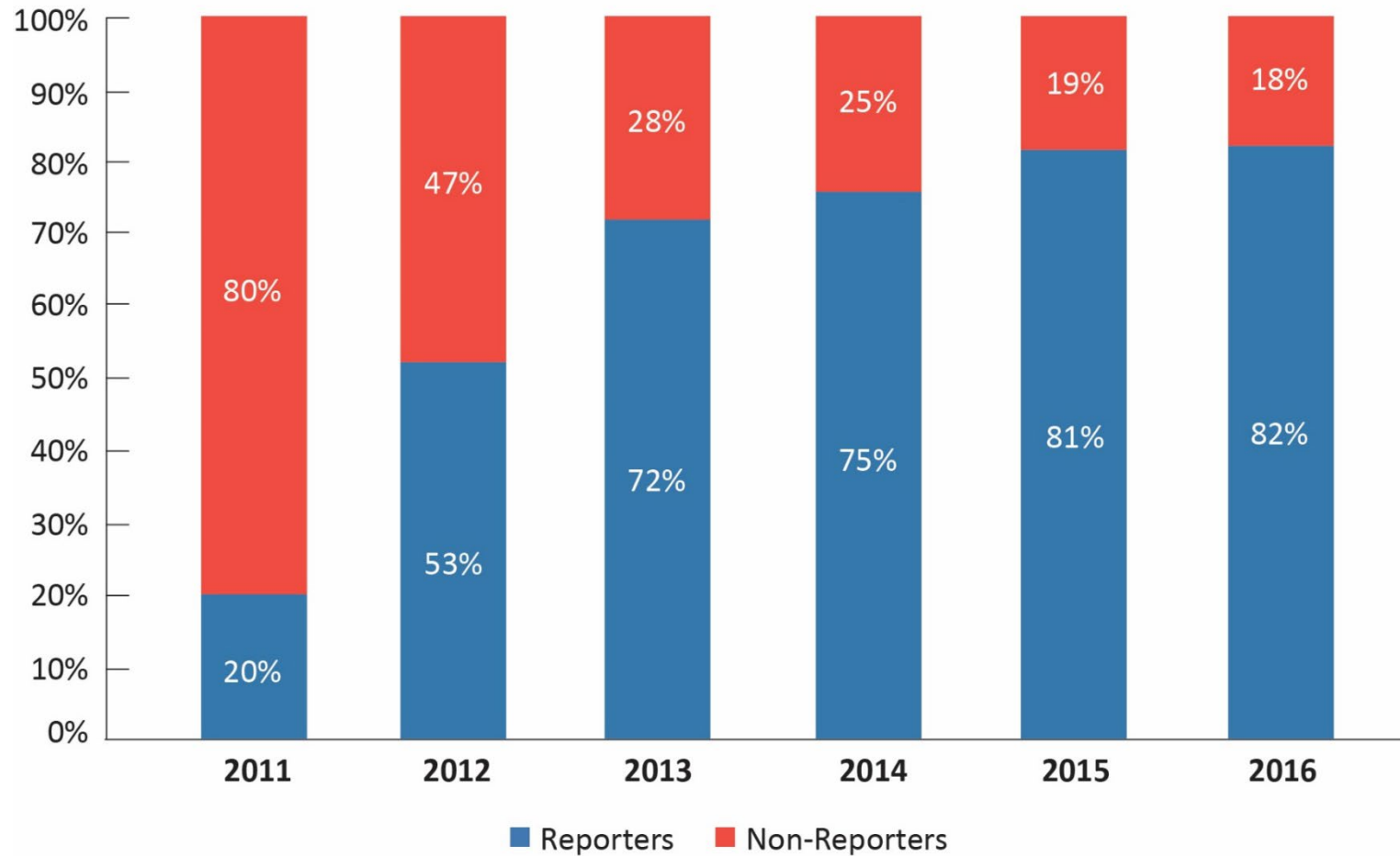
17 GOALS TO TRANSFORM OUR WORLD





Huge Increase in Reported Information

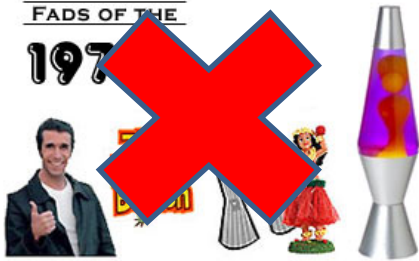
S&P 500 Companies Sustainability Reporting



Source: The Evolution of Corporate Sustainable Reporting, Merrill Lynch November 2017; Governance and Accounting Institute, Inc. 2017



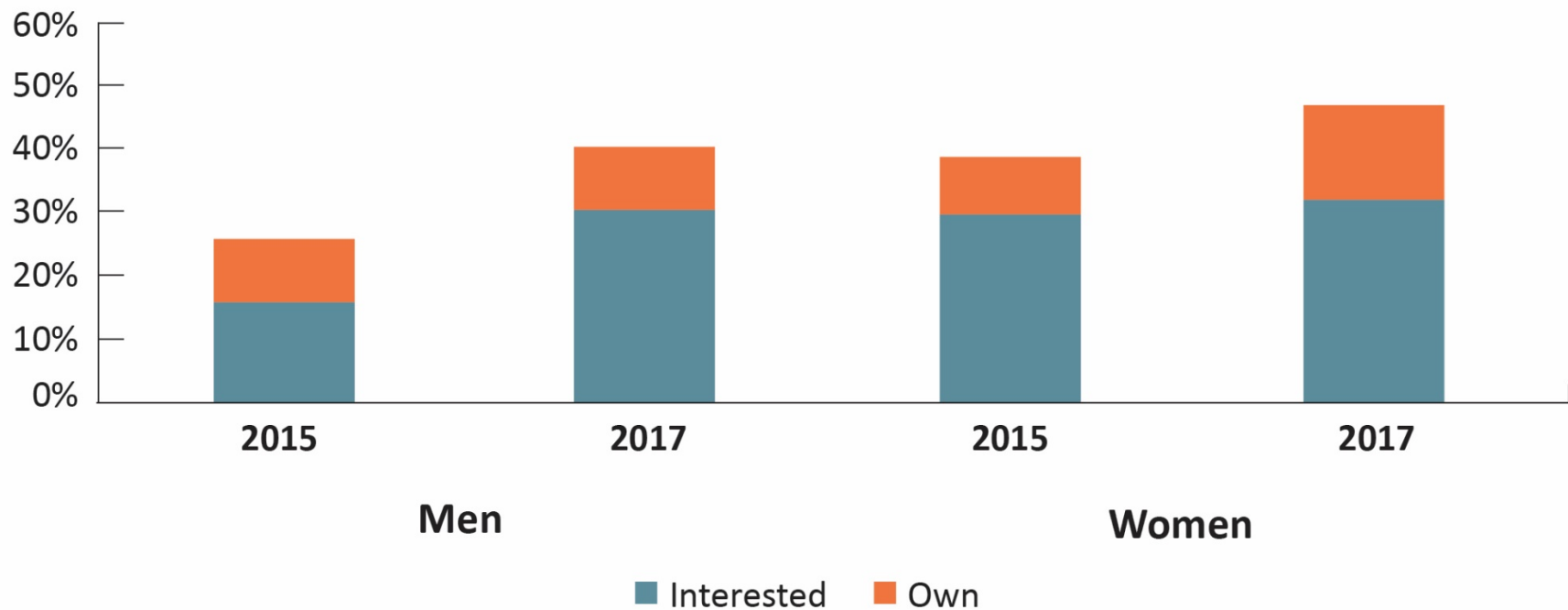
MYTH #2: Sustainable Investing is Just for Tree Huggers!





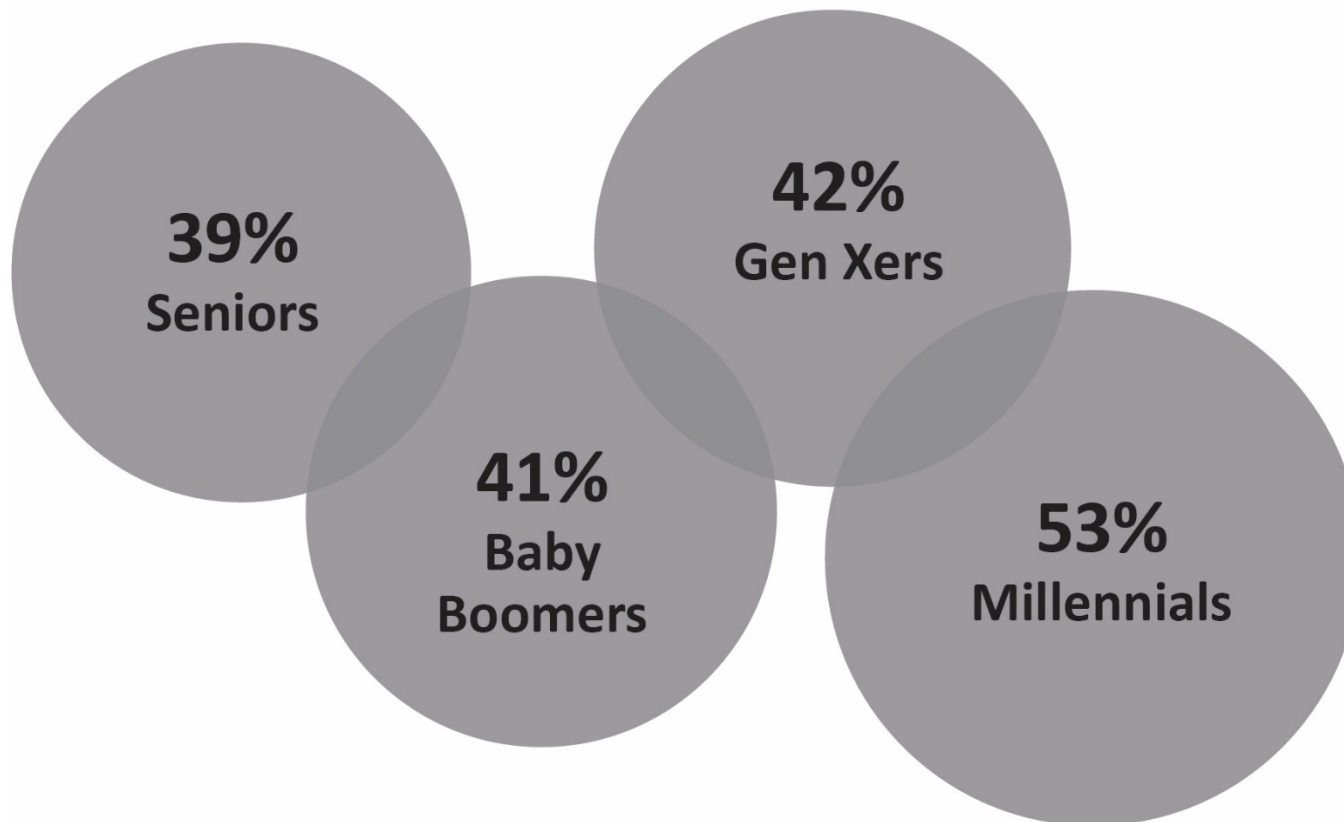
Male and Female - The Growth of Interest and Investment in Impact

Interest and Ownership in Impact Investing





Who makes investing decisions based on social responsibility factors?



84% of millennials are interested in socially responsible investing
- Morgan Stanley



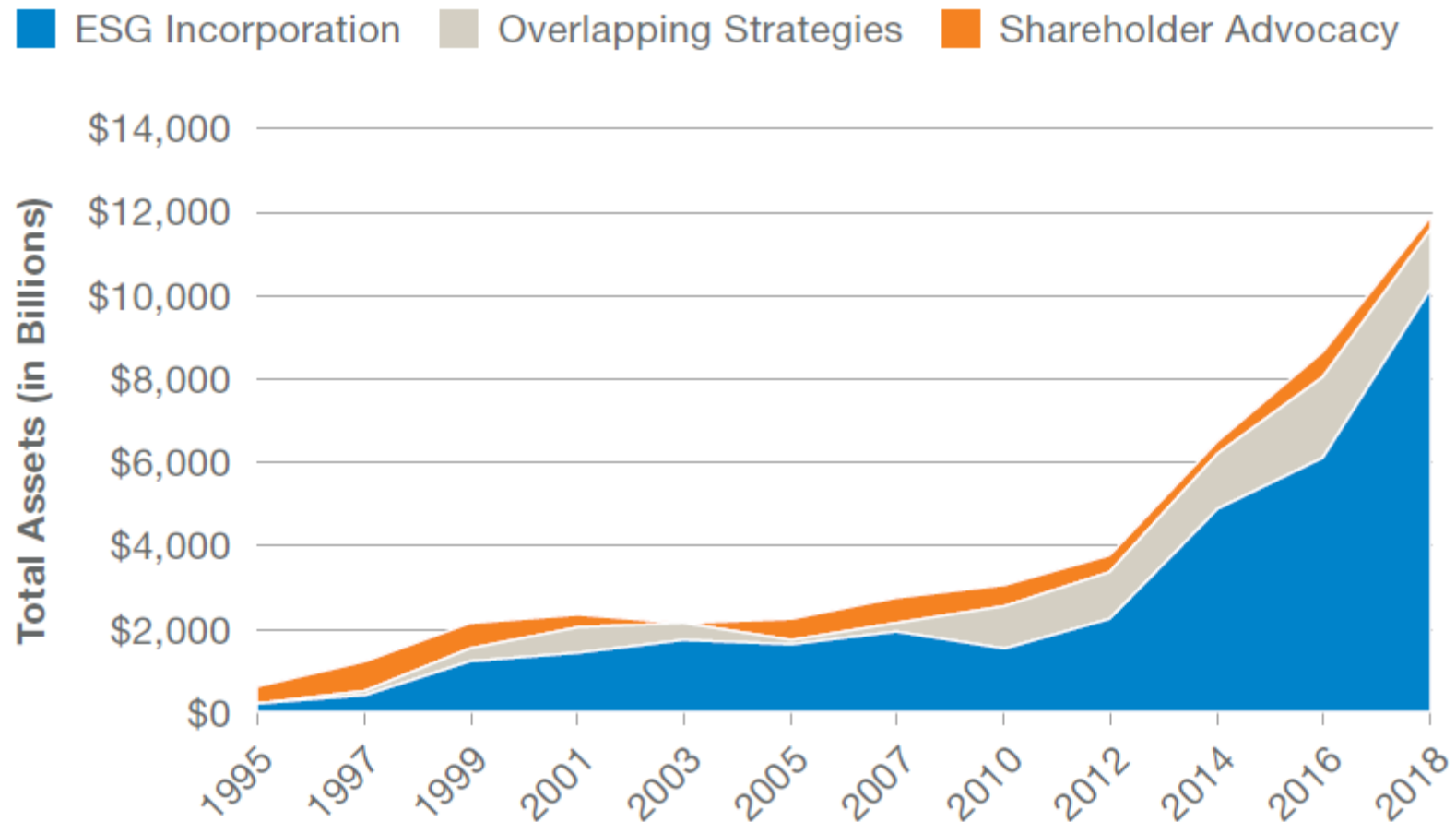
"We're in the middle of a \$30 trillion intergenerational wealth transfer from baby boomers to their children. And those kids - not really millennials only, but people from 25 to 40 years old - simply think about their investment decisions differently."

- Dave Nadig, CEO of ETF.com



It's Not Just the Individual Investors

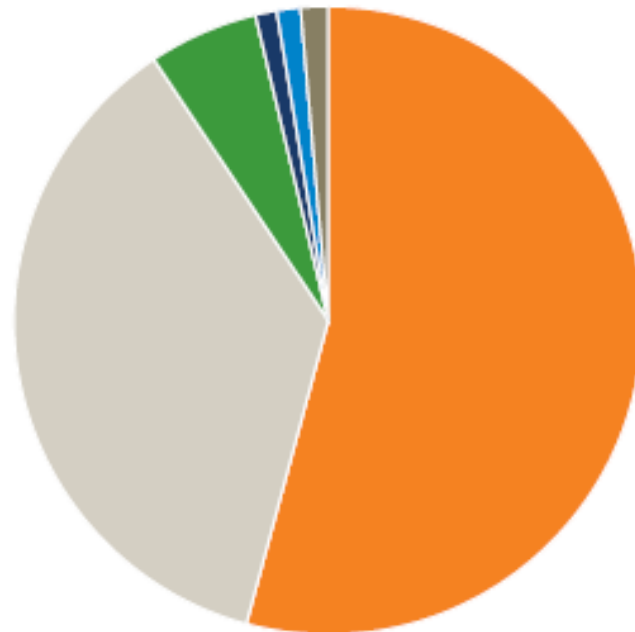
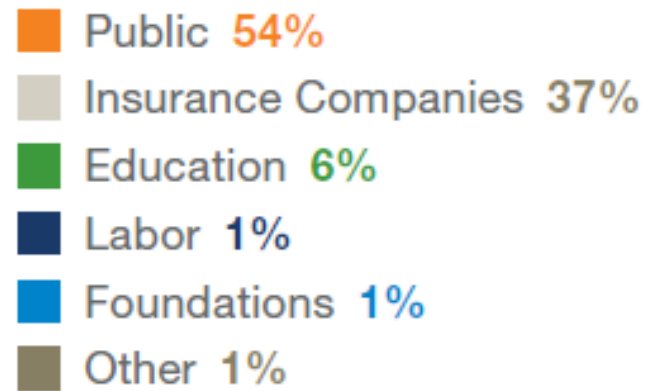
Sustainable and Responsible Investing in the United States 1995–2018



Source: Report on US Sustainable, Responsible and Impact Investing Trends 2018, US SIF Foundation



Institutional Investor ESG Assets, by Investor Type 2018





Define
D E F I N E



Do All Institutional Investors Agree on ESG Investing?

Quotes from Institutional Investors

...a set of filters that are applied to our investments so that we can assess financial risk

...about recognizing that companies cannot get away with doing the wrong thing forever and that eventually there will be financial implications

...a distraction from the goal of delivering long term returns

...a wishy washy, altruistic approach



What Is It?

ESG / Responsible / Sustainable Investing:

- The consideration of environmental, social and governance factors alongside financial factors in the investment decision-making process.
 - **Classic SRI:**
 - Exclusionary: tobacco, alcohol, firearms, anti-conflict, etc
 - **ESG Integration:**
 - Investing with a systematic and explicit inclusion of ESG risks and opportunities with the intention to enhance returns.
 - **Values-Based Investing:**
 - Investing in alignment with an organization or individual's moral values and beliefs.
 - **Investing with Impact:**
 - Investing with the intention to support positive social or environmental benefits alongside a financial return.



Examples of IMPACT Investing Themes



Affordable Healthcare



Affordable Housing



Enterprise Development



Healthy Communities



Education and Child Welfare



Redevelopment of Distressed or Blighted Communities



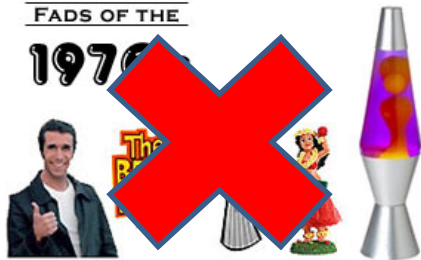
Environmental Sustainability



Disaster Recovery



MYTH #3: You Must Sacrifice Returns!





DON'T WE HAVE TO SACRIFICE RETURNS?

“Environmental, Social, and Governance (ESG) factors are correlated with superior risk-adjusted returns at the security level.”

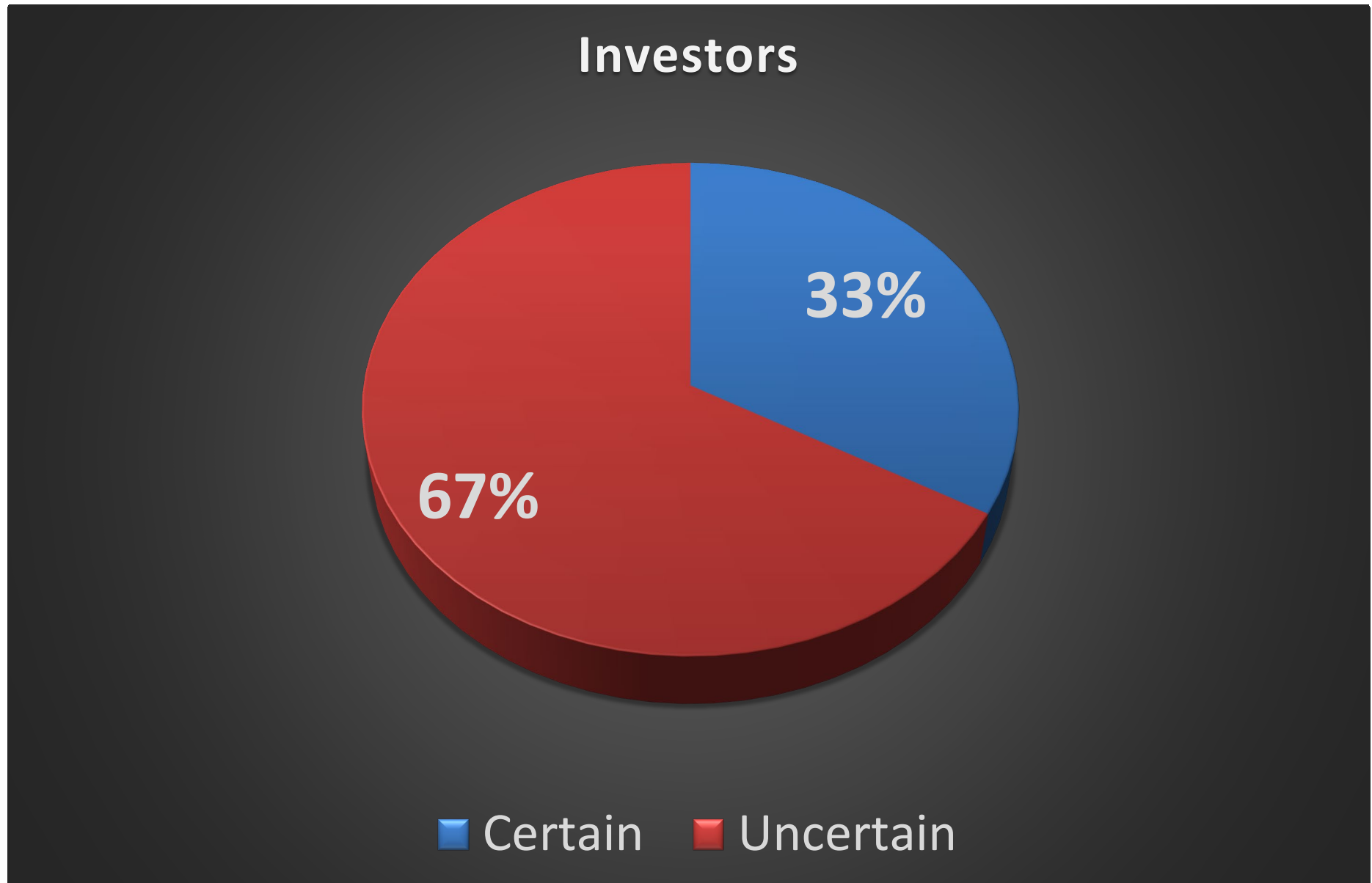
“Impact portfolios do well or even outperform their traditional counterparts, especially in down markets.”

...while

“SRI adds little upside, although it does not underperform either. Exclusion, in many senses, is essentially a values-based or ethical consideration for investors.”



2015: Can ESG Investing Offer Competitive Returns?



Source Bank of America Merrill Lynch, 2015 ESG Research, "A Roadmap to Leadership in ESG and Social Impact," page 15



...And Since Then...

“Companies that manage their ESG risk tended to be more stable credit risks and had lower earnings volatility.”

- Breckenridge 2015

Higher ESG rated companies had a more stable return pattern, leading to the potential for ESG analysis to preserve capital in a portfolio.

- MSCI, Analytic Investors

Sustainable funds tend to deliver higher returns and lower volatility than their traditional counterparts

- Morgan Stanley Institute for Sustainable Investing

ESG data analysis may help increase shareholder value while mitigating risk.

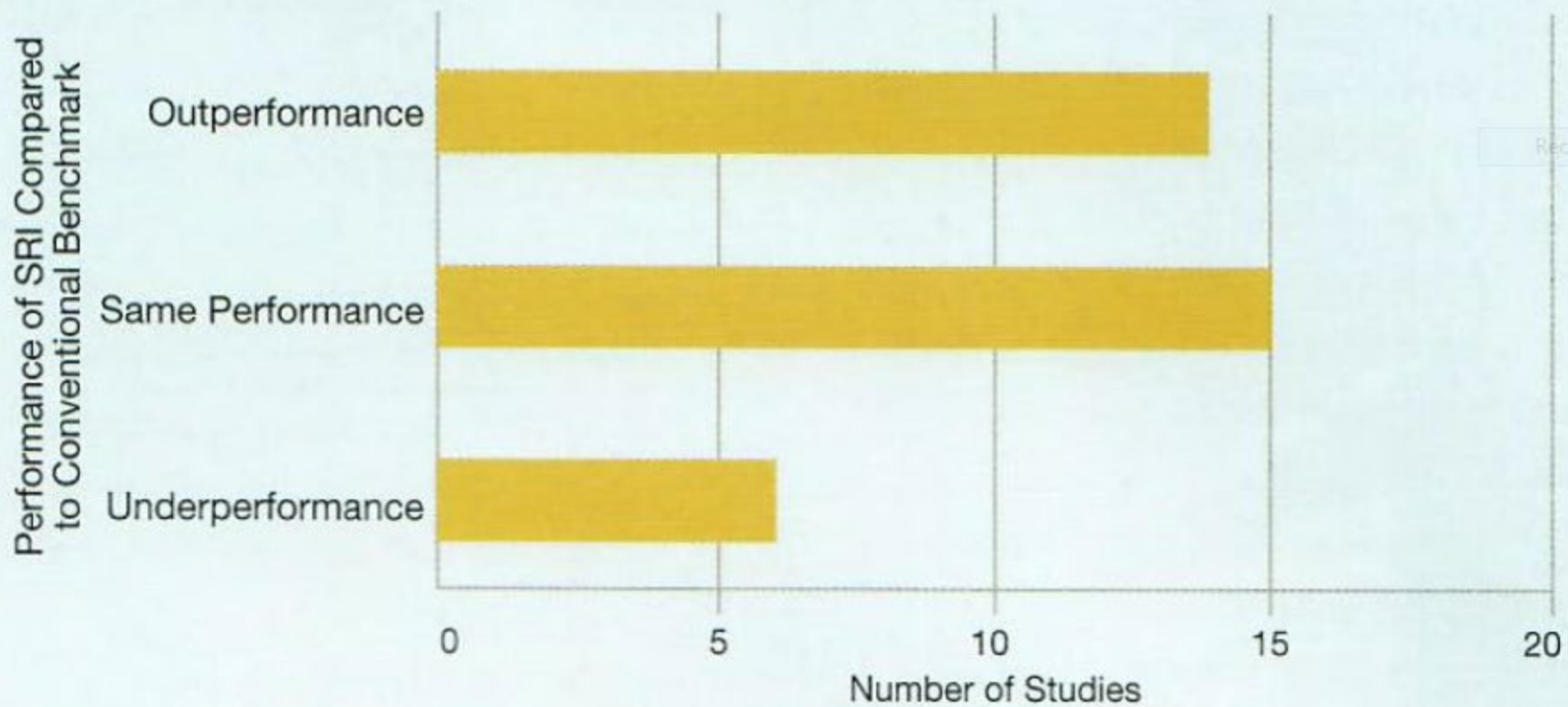
- Harvard University & Calvert Investments

Is It Conclusive?



Figure 1: SRI Meta-Analysis Results

Results Performance Analysis — 35 studies in total



What About CALPERS Decision to Exclude Tobacco in the Early 2000s?



“Since then, tobacco stocks have outperformed, costing the pension billions of dollars in potential returns.

It was a poor decision by one of the most underfunded pension plans in the U.S.”

- Chris Burnham, President of the Institute for Pension Fund Integrity. Nov 2018

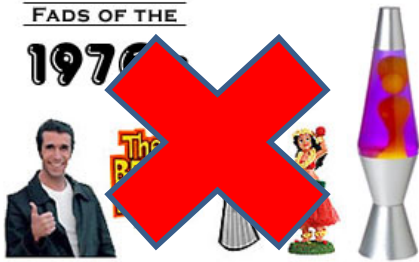


“You cannot prove that ESG will lead to outperformance any more than you can prove the merits of any other investment approach. Regressive performance evaluation is complicated in ESG versus other factors, like value or growth, because of data transparency/standardization issues and the many different approaches to ESG integration utilized by investors. ”

**- Alex Bernhardt, U.S. Head of Responsible Investing,
Mercer**



You Must Sacrifice Returns!





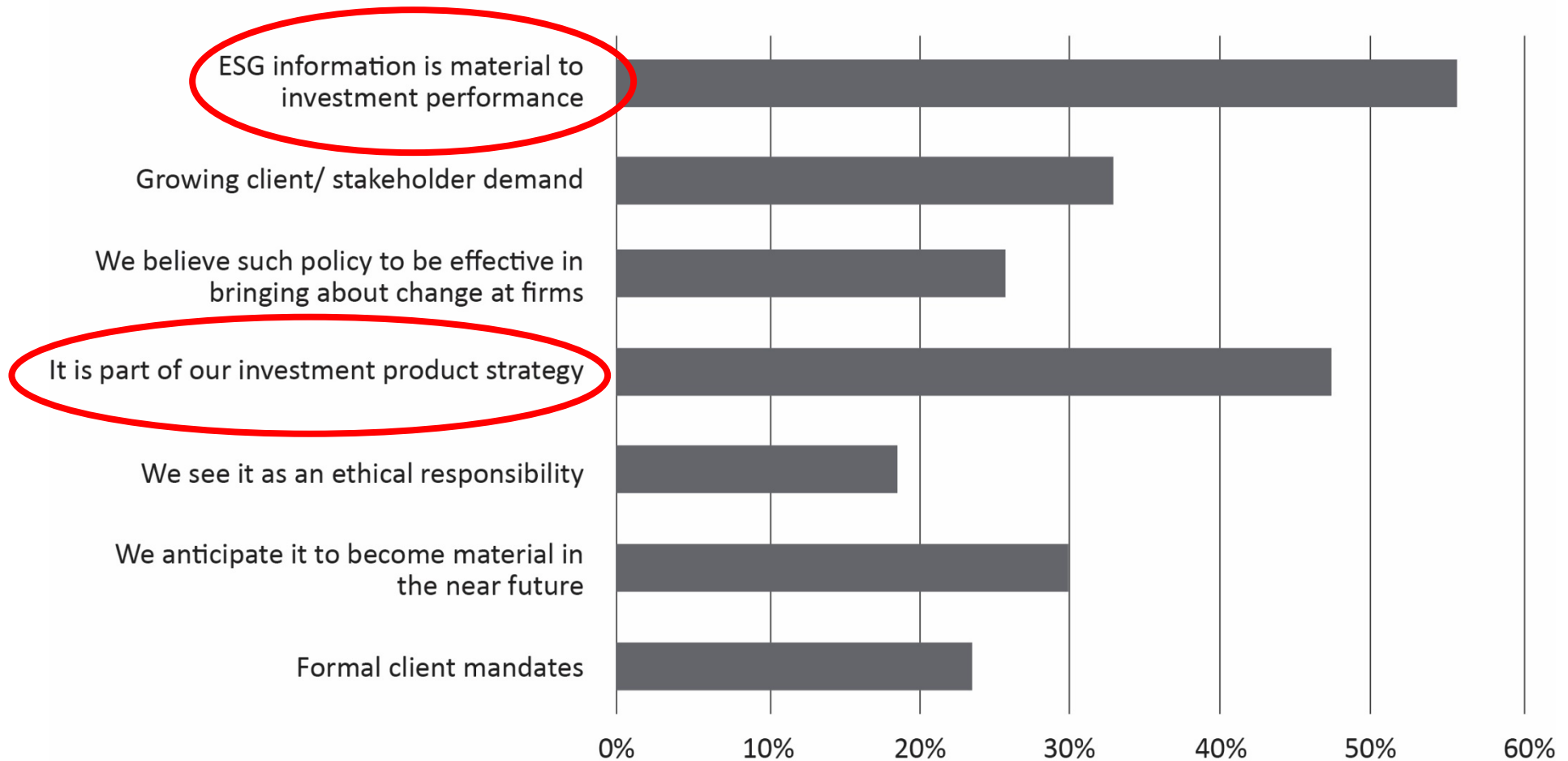
Demystify

Demystify



U.S. Institutional Investors: Why?

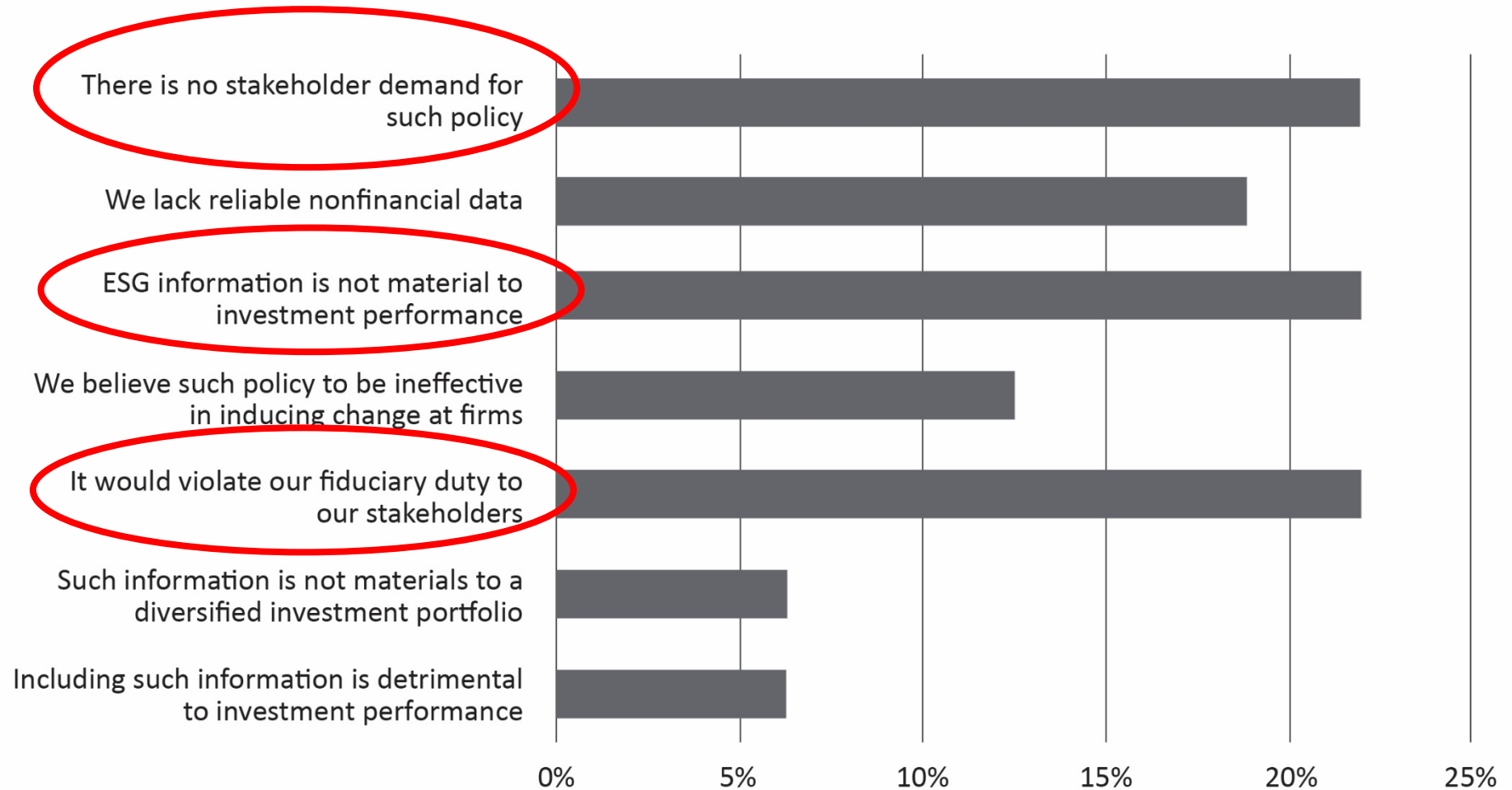
Reasons for Considering ESG Information When Making Investment Decisions



Why Not?



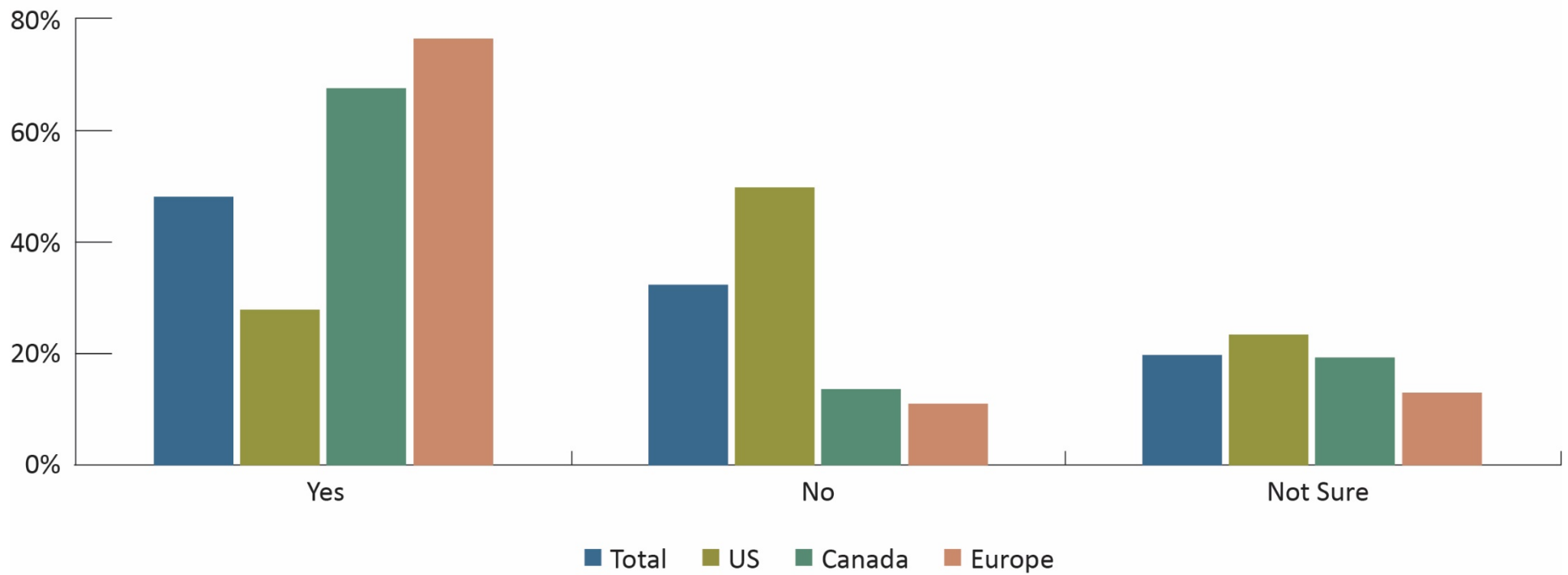
Reasons for NOT Considering ESG Information When Making Investment Decisions





Differing Views Around the World

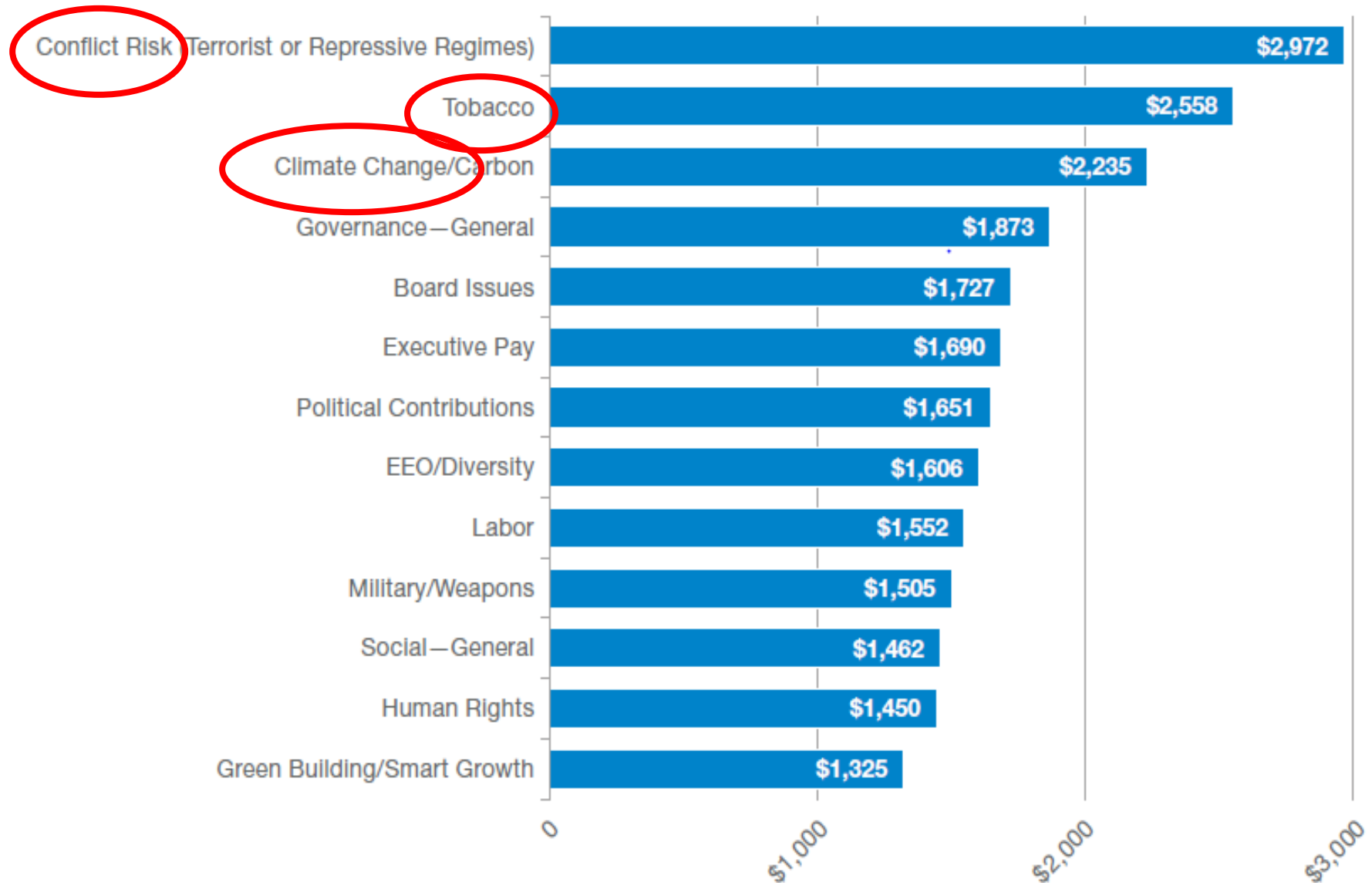
Do you consider ESG to be a risk mitigator?





What are the Criteria?

Leading ESG Criteria Reported by Institutional Investors, by Assets 2018 (in Billions)



Source: Report on US Sustainable, Responsible and Impact Investing Trends 2018, US SIF Foundation



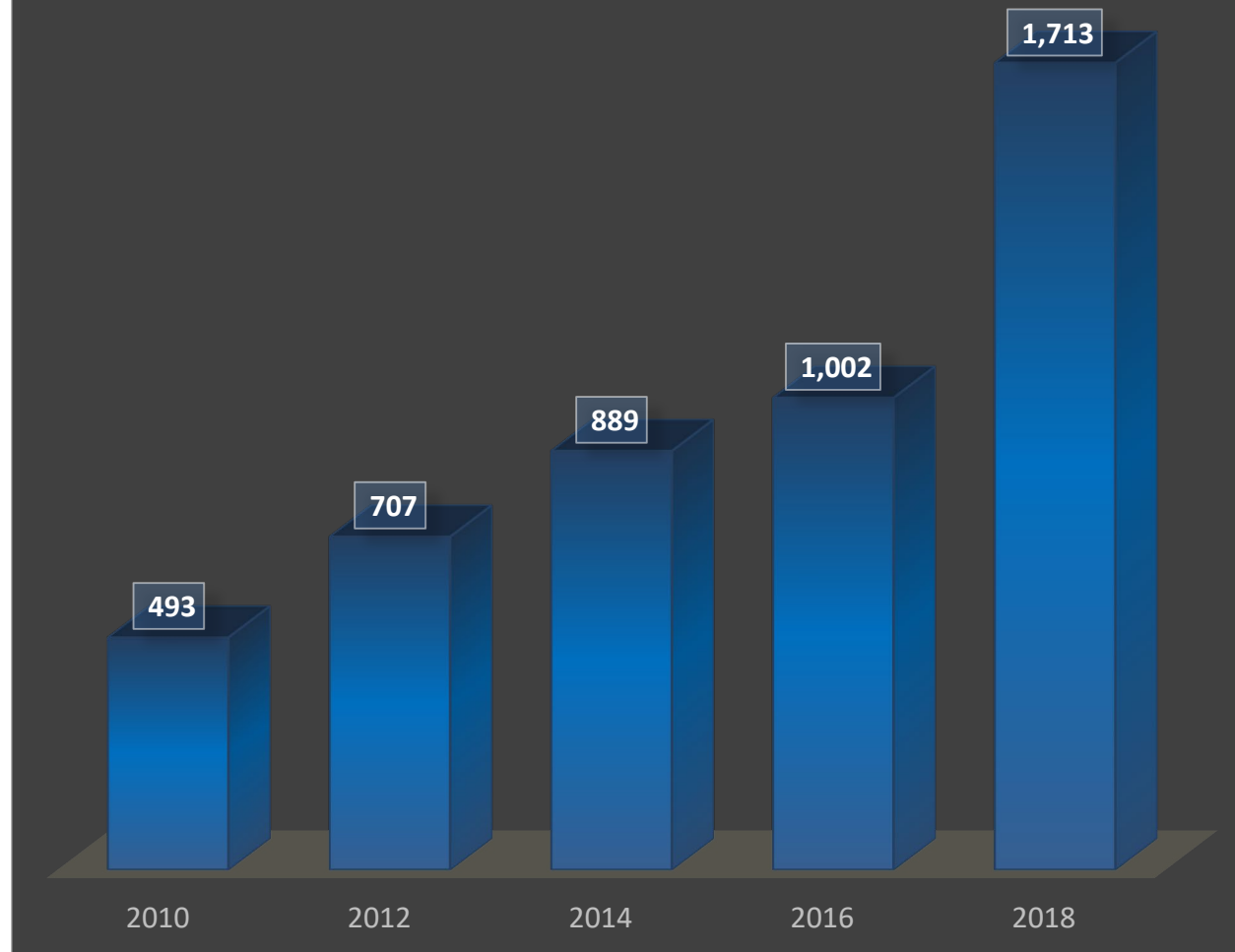
Buyer Beware



Source: Image sourced from Down2earth.ie



OF INVESTMENT PRODUCTS INCORPORATING ESG



Source: Report on US Sustainable, Responsible and Impact Investing Trends 2018, US SIF Foundation. # of Investment Products includes Registered Investment Companies, Alternative Investment Vehicles, and Other Commingled Funds, 2010-2018.

...On Greenwashing in the Asset Management Industry



“Greenwashing...is widespread in the asset management community, largely driven by ill-informed investors, rather than ill-intent.”

- Erika Karp, CEO Cornerstone Capital

- It applies to new strategies that don't measure up, and
- existing strategies managers wish to market as ESG.

“Some managers are likely guilty of repurposing investment strategies to maintain market share.”

- Bob Smith, Sage Advisor Services



“Admittedly our due diligence team will say that finding top-quality managers is challenging to begin with, and identifying top-quality impact (ESG) managers is even more complex.”

- Randy Kaufman, JD, SVP, EMM Wealth



Aristotle's Experience





Investment Process



High Quality

- Attractive business fundamentals
- Sustainable competitive advantages
- Experienced management team
- Pricing power
- Improving profitability metrics

Attractive Valuation

Use of normalized figures, including:

- Cash Flow Return on Enterprise Value
- Price-to-Earnings Ratio
- Price-to-Sales Ratio
- Price-to-Free Cash Flow Ratio
- Enterprise Value-to-EBITDA Ratio

Compelling Catalysts

- Productive use of strong free cash flow
- Restructuring and/or productivity gains
- Change in management or control
- Accretive acquisitions or divestitures
- Resolution of ancillary problems



Aristotle Credit Partners

Governance:

- **Volkswagen**: Cheated on emissions. Lack of Board independence.
- **Valeant**: Role of CEO & Chairman not split, poor accounting controls, restatements
- **United Rentals**: Independent chairman, 82% independent Board, comp committee.
- **Exam Works**: Independent compensation and audit committees.

Environmental

- **Chemours**: sued for polluting ground water, claims of cancer. Litigation potential.
- **Mercer** (paper mill): Awards for environmental record. Sells clean biomass energy.

Social

- **JCPenny**: very poor labor practices and numerous lawsuits over wage discrimination, forfeiture of vacation days, deceptive sales practices.
- **PVH Corp**: high scores in labor management and the health and safety of employees. Transparency to location of leather and cotton suppliers by country.





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OUR REGULARLY
SCHEDULED
PROGRAMMING**



Resources

Resources



Where to Learn More



<https://www.unpri.org/>

US | SIF

<https://www.ussif.org/>

The Forum for Sustainable and Responsible Investment



<https://www.issgovernance.com/home/iss-ethix/>



<https://www.msci.com/esg-investing>



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