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# Values-Based Investing

CarsonAllaria Wealth Management



# What is Values-Based Investing?

## Overview

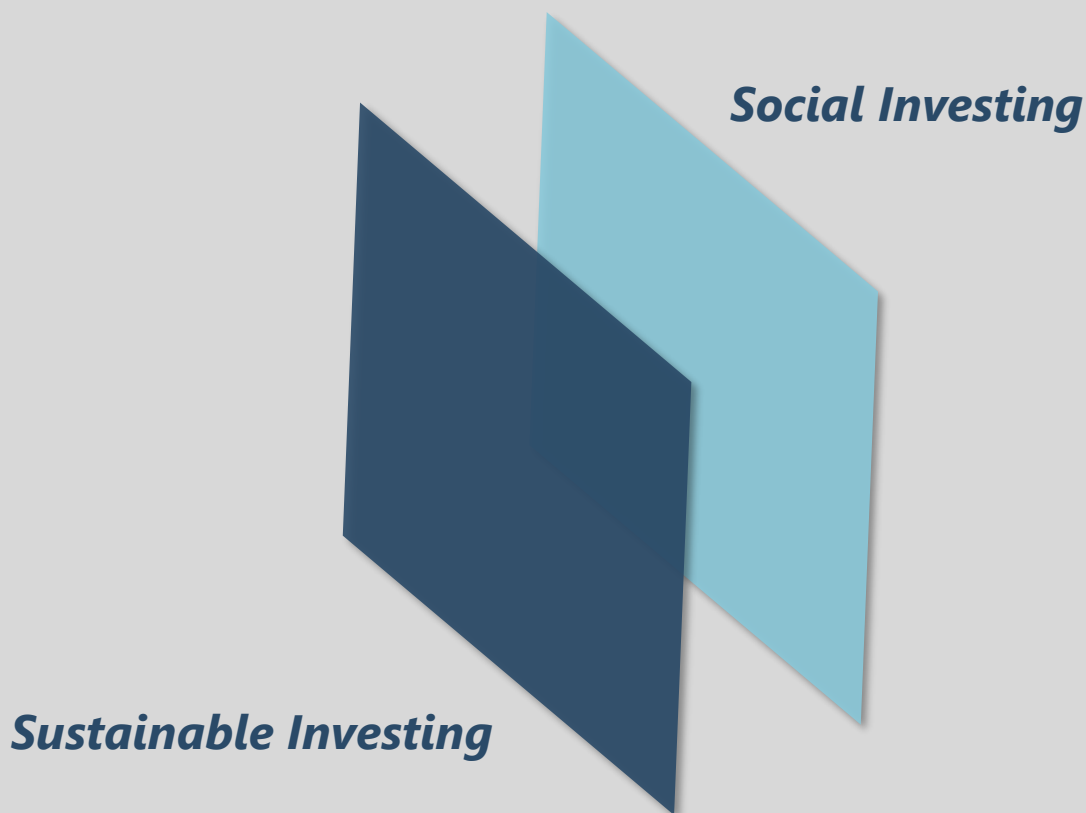
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"After several years as a wealth advisor, I heard another advisor speak about this concept called values-based investing. He described it by asking a question. He said, 'Do you have any values that you believe in so strongly that you'd never want to violate them just to make a profit?' For me, the answer was absolutely, yes! Just like that, I understood what values-based investing was and it made a ton of sense to me."

***Joe Allaria, Partner and Wealth Advisor***

Our values-based portfolios offer a way for our clients to invest only in companies that are aligned with their values, excluding those that are not. We believe, as wealth advisors, it's our responsibility to not only educate, but also to offer customized, meaningful solutions for each client we work with. In our values-based portfolios, we combine our low-cost, evidence-based, investment approach with a thorough social and sustainability screening process in pursuit of a strong, long-term investment experience.

***"Do you have values that you believe in so strongly that you'd never want to violate them just to make a profit?"***



# Social Investing

## Overview



Socially responsible investing (SRI) refers to any investment strategy that seeks both financial return and social good, taking into consideration the impact an investment has on society. Social investing, also sometimes known as ethical investing, has been a growing trend in recent years, as investors have continued to increase their allocation to these types of investments.<sup>1</sup>

For our strategies to accomplish what we set out to, we felt it was important to develop a meaningful way to screen for certain client-driven social concerns. We've engaged leading firms and experts to provide top-tier screening criteria and screening implementation. Our social investment strategies leverage a third-party research vendor to examine the business practices of companies across several social issues. The screens may include certain activities to be excluded or businesses that operate within certain regimes, like the Republic of Sudan.

While we believe it's important to offer a social investing strategy to our clients, we feel it's equally important to integrate the same investment principles that we've implemented over the years. We continue to focus on keeping costs and turnover to a minimum and maintaining a globally diversified allocation. For this reason, our social funds cover the US Equity, International Developed, Emerging, and Fixed Income markets.

While the social screens reduce the number of securities we consider available to purchase, our core equity approach provides broad diversification across each market. Each of our social portfolios holds thousands of securities, far more than the approximately 145 securities held, on average, by other SRI funds.<sup>2</sup>

### Bottom Line

If there is a social issue that matters to you, it matters to us. With our social investing strategies, we can do more to promote more positive outcomes and behaviors in our society.

### Social Screens Include:

- Abortions, abortive agents, and contraceptives
- Adult entertainment
- Child labor
- Gambling
- Landmines and cluster bombs
- Republic of the Sudan
- Stem cell research
- Tobacco
- Alcohol
- Weapons

1. Bankrate.com; Socially responsible investing: How to Make a Difference

2. Holdings data as of June 30, 2013. SRI industry average (based on the Morningstar Equity universe) excludes Dimensional's funds

# Sustainable Investing

## Overview



Sustainable investing refers to any investment strategy that seeks financial return while emphasizing investment in companies that are acting in more environmentally sound ways than their industry counterparts. The companies that pass our sustainability screens acknowledge there is a shared responsibility for environmental impact that exists among both the supply and demand sides of the market.

Our sustainability screening process includes many different considerations and factors. In each sector, companies are scored on the variables listed below.<sup>1</sup> Those with high scores relative to their peers receive a greater weight, while those with low scores receive a reduced weight or are excluded. We've found that the primary concerns for sustainability investors are the global warming effects that occur from fossil fuel reserves. Therefore, roughly 85% of a company's total score depends on the intensity of their greenhouse gas emissions.<sup>2</sup>

Staying consistent with our overall investment philosophy, we've designed our sustainability-focused portfolios with an emphasis on the same three primary drivers of expected returns that are the basis of all our investment strategies; company size, relative price, and profitability. Therefore, we continue to emphasize a tilt toward small-cap, value, and highly-profitable companies, with the expectation that these factors will lead to higher returns over time.<sup>3</sup>

We combine these drivers of return with our emphasis on controlling costs and maintaining a globally diversified portfolio. Like our approach in our socially responsible portfolio, we believe broad diversification is still incredibly important when implementing these solutions. Therefore, while other sustainable investing solutions may limit the number of holdings in their funds or investment strategy, we strive to leverage the investment universe that will allow us to experience the full benefits of diversification.

### Bottom Line

We believe our approach to sustainable investing allows us to deliver a solution that can help align investor dollars with investor values, while not sacrificing overall expected returns.

### Sustainability Considerations:

- Greenhouse gas emissions intensity
- Potential emissions from reserves
- Land use and biodiversity
- Toxic spills and releases
- Operational waste
- Water management
- Factory farming
- Cluster munitions
- Tobacco
- Child labor

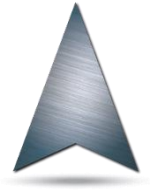
1. Sustainability scores are based on criteria created by Dimensional. The weighting of companies in each category (e.g., Most Sustainable, Above Average, Average, Below Average, and Least Sustainable) is determined by computing breakpoints based on each company's sustainability score within its respective target market.

2. See disclosure section on page 6 for full definitions regarding Greenhouse Gas Emissions scoring

3. Relative price is measured by the price-to-book ratio; value stocks are those with lower price-to-book ratios. Profitability is measured as operating income before depreciation and amortization minus interest expense scaled by book.

# Implementation

## Personal Portfolios & Corporate Retirement Plans



Because we advise individuals and families on personal assets and corporations on qualified retirement programs, we felt it was important to offer a way for both individual clients and plan participants to engage in values-based investing if they desired to do so. Therefore, we've created a way for both to utilize these types of investment strategies. We've not only seen an increase in the demand for these solutions in our interactions, but the statistics also support this growing trend.

According to the 2018 biennial Report on U.S. Sustainable, Responsible, and Impact Investing Trends, total U.S.-domiciled assets under management using sustainable investment strategies grew from \$8.7 trillion at the start of 2016 to \$12 trillion at the start of 2018. This means that one in four dollars of the total U.S. assets under professional management sit in these types of investments. Also, the growth of funds that specialize in environmental, social, and governance (ESG) factors has increased over 200% from the past decade.<sup>1</sup>

	Personal Portfolios	Corporate Retirement Plans
Access to both social and sustainable investment strategies	✓	✓
Aligns social and sustainability values with investment goals	✓	✓
Employs a patented approach, designed to combine focused screens with broad diversification <sup>2</sup>	✓	✓
Applies time-tested, systematic investment process	✓	✓
Offers transparent reporting on metrics that matter to sustainability investors	✓	✓
Harnesses the power of market pricing while focusing on efficient trade execution	✓	✓
Leverages Dimensional Fund Advisors as our primary fund provider	✓	✓
Complete lineup of mainstream funds available to supplement social and sustainable funds for employees that prefer a mainstream approach		✓
Access to fully diversified and professionally managed model portfolios	✓	

1. Bankrate.com; Socially responsible investing: How to Make a Difference

2. CarsonAllaria Wealth Management uses funds provided Dimensional Fund Advisors. Dimensional's approach to sustainability investing is protected by U.S. Patent Nos. 7,596,525 B1, 7,599,874 B1, and 8,438,092 B2.

# Investment Strategies

## Fund Chart



### Socially Responsible Funds

Fund and Prospectus Benchmark	Symbol	Net Expense Ratio	1-Year	3-Year	5-Year	10-Year
DFA US Social Core Equity 2 Portfolio	DFUEX	0.28%	3.70%	12.21%	7.85%	15.53%
DFA US Core Equity 2 Portfolio	DFQTX	0.22%	3.61%	11.90%	8.12%	15.81%
Russell 3000 Index <sup>1</sup>	-	-	8.77%	13.48%	10.36%	16.00%
DFA International Social Core Equity Portfolio	DSCLX	0.33%	-8.33%	7.41%	2.18%	-
DFA International Core Equity Portfolio	DFIEX	0.30%	-8.20%	7.37%	2.41%	10.13%
MSCI World ex USA Index (net div) <sup>2</sup>	-	-	-3.14%	7.29%	2.20%	8.82%
DFA Emerging Markets Social Core Equity Portfolio	DFESX	0.53%	-8.92%	10.23%	3.71%	9.88%
DFA Emerging Markets Core Equity Portfolio	DFCEX	0.52%	-9.48%	9.60%	3.44%	9.85%
MSCI Emerging Markets Index (net div) <sup>3</sup>	-	-	-7.41%	10.68%	3.68%	8.94%
DFA Social Fixed Income Portfolio	DSFIX	0.27%	5.27%	-	-	-
DFA Investment Grade Portfolio	DFAPX	0.22%	5.28%	2.01%	2.94%	-
Bloomberg Barclays US Aggregate Bond Index <sup>4</sup>	-	-	4.48%	2.03%	2.74%	2.44%

### Sustainability Funds

Fund and Prospectus Benchmark	Symbol	Net Expense Ratio	1-Year	3-Year	5-Year	10-Year
DFA US Sustainability Core 1 Portfolio	DFSIX	0.25%	6.70%	13.18%	9.52%	16.20%
DFA US Core Equity 1 Portfolio	DFEOX	0.19%	5.55%	12.78%	9.25%	16.05%
Russell 3000 Index <sup>1</sup>	-	-	8.77%	13.48%	10.36%	16.00%
DFA International Sustainability Core 1 Portfolio	DFSPX	0.37%	-6.15%	7.27%	2.43%	9.58%
DFA International Core Equity Portfolio	DFIEX	0.30%	-8.20%	7.37%	2.41%	10.13%
MSCI World ex USA Index (net div) <sup>2</sup>	-	-	-3.14%	7.29%	2.20%	8.82%
DFA Emerging Markets Sustainability Core 1 Portfolio	DESIX	0.65%	-8.92%	10.23%	3.71%	9.88%
DFA Emerging Markets Core Equity Portfolio	DFCEX	0.52%	-9.48%	9.60%	3.44%	9.85%
MSCI Emerging Markets Index (net div) <sup>3</sup>	-	-	-7.41%	10.68%	3.68%	8.94%
DFA Global Sustainability Fixed Income Portfolio	DGSFX	0.28%	-	-	-	-
DFA Investment Grade Portfolio	DFAPX	0.22%	5.28%	2.01%	2.94%	-
Bloomberg Barclays Global Aggregate Bond Index <sup>5</sup>	-	-	4.93%	-	-	-

1. The Russell 3000 Index measures the performance of the 3,000 largest publicly traded US companies based on total market capitalization. Frank Russell Company is the source and owner of the trademarks, service marks and copyrights related to the Russell Indexes. Indices are not available for direct investment.

2. The MSCI World ex USA Index measures the performance of securities from developed markets excluding the US. MSCI data copyright MSCI 2019, all rights reserved. Indices are not available for direct investment.

3. The MSCI Emerging Markets Index measures the performance of securities from developing countries. MSCI data copyright MSCI 2019, all rights reserved. Indices are not available for direct investment.

4. The Bloomberg Barclays US Aggregate Bond Index measures the performance of the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. Data provided by Bloomberg. Indices are not available for direct investment.

5. The Bloomberg Barclays Global Aggregate Bond Index (hedged to USD) measures the performance of global investment grade debt, and includes treasury, government-related, corporate and securitized fixed bonds while hedging the currency back to the US Dollar. Data provided by Bloomberg. Indices are not available for direct investment.

To learn more about values-based investing with CarsonAllaria Wealth Management, please visit **CarsonAllaria.com** or call us at **(618) 288-9505**.

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#### **Additional disclosures**

(from page 4) Greenhouse Gas Emissions Intensity represents a company's recently reported or estimated Scope 1 (direct) + Scope 2 (indirect) greenhouse gas emissions in carbon dioxide equivalents (CO<sub>2</sub>e) and normalized by sales in USD (metric tons CO<sub>2</sub>e per USD million sales). Greenhouse gases included are the six gases mandated by the Kyoto Protocol: carbon dioxide (CO<sub>2</sub>), methane (CH<sub>4</sub>), nitrous oxide (N<sub>2</sub>O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs), and sulfur hexafluoride (SF<sub>6</sub>). This methodology is subject to change with data developments or other findings or events. Potential Emissions from Reserves is a theoretical estimate of carbon dioxide produced if a company's reported reserves of oil, gas, and coal were converted to energy, given estimated carbon and energy densities of the respective reserves. Companies are evaluated using estimated Potential Emissions from Reserves divided by assets in USD. This methodology is subject to change with data developments or other findings or events. For information on Emissions Exposure for the International Sustainability Core 1 Portfolio and the Emerging Markets Sustainability Core 1 Portfolio, please visit [us.dimensional.com](http://us.dimensional.com)

