

# HISTORY – VALUES-BASED INVESTING

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# Introduction

Values-based investing provides investors with the ability to align their investments with their personal beliefs and values. The first seeds of values-based investing were planted thousands of years ago and set the framework for today's approaches to responsible investing. Religious faiths - Christian, Jewish and Islamic, among others, - have led the way by aligning investments to their specific values, causes or beliefs.

Christians, broadly divided into Roman Catholic, Protestant and Orthodox, lean on biblical scripture and the teachings of Jesus Christ to guide their investment decisions. Earliest noted investment doctrines are attributed to Quakers and Methodists. Quakers prohibited members from investing in slavery or war. John Wesley, one of the founders of Methodism, outlined basic tenants of values-based investing in his sermon, "The Use of Money" in which he encouraged church members to avoid profiting at the expense of their neighbors<sup>1</sup> - originating the exclusionary investment practice of avoiding "sin stocks" such as alcohol, tobacco, adult entertainment or gambling.

The Torah, or Pentateuch, is the collective name for the first five books of the Bible - Genesis, Exodus, Leviticus, Numbers and Deuteronomy. Believed to be written by Moses, the books refer to the Jewish concepts of Tzedek and Tikkun Olam - translated from Hebrew to "justice" and "repair the world" respectively. Followers of Judaism may have varying interpretations, but for many, these concepts represent how things ought to be lived and practiced across all aspects of life - acquiring wealth ethically and using capital to advance the wellbeing of society at large.

Islamic investment practices are based on the sacred scriptures of Islam, including the Qur'an - the principal source of Islamic law, the Sharia - and the Hadith. Now known as Islamic Finance or Sharia-Compliant Finance, Sharia law governs the values and principles Muslim investors must follow. Principally to invest responsibly and ethically by ensuring all income is halal (legitimate), does not involve interest (riba) or business dealings deemed 'Haraam' (unlawful), e.g., alcohol, tobacco, pork, weapons, adult entertainment and gambling.

<sup>1</sup> The Origins of Socially Responsible Investing, April 30, 2022, thebalancemoney.com

# Defining Events

While religious organizations set the stage for investors to faithfully align one's values and capital, many defining events coupled with globalization and advancements in technology have catapulted investor interest and expanded values beyond those specific to a religious doctrine.

## 1950s - 1990s

- Divestment campaigns launched to end apartheid in South Africa
- Vietnam War protests demand divestment in defense contractors
- Iconic photo of 9-year-old girl burning from napalm sparks public outrage against Dow Chemical
- Interfaith Center on Corporate Responsibility founded
- Congress passes the Community Reinvestment Act to reduce discriminatory credit practices against borrowers residing in low and moderate-income neighborhoods
- Disasters at Chernobyl, Bhopal and the Exxon Valdez bring further attention to pollution, energy use and environmental concerns
- Concerned investors grew dramatically eventually leading to the dismantlement of apartheid

## 2000 - present

- Fall of Enron draws attention to governance failures. Regulations are increased to uphold accuracy of financial reporting
- Global financial crisis gives attention to the role of ethics in finance
- Human rights atrocities in Sudan spur investors to screen out companies doing business in the country
- Pope Francis' Encyclical on the Environment draws attention to climate change
- Me Too, Black Lives Matter and Times Up Movements revise investors' beliefs around fostering an inclusive environment
- COVID 19 pandemic accelerated interest in creating companies and society with more resilient and equitable practices
- United State Conference of Catholic Bishops approved new socially responsible guidelines for financial investments, marking the first update in nearly two decades.
- UN established Sustainable Development Goals, a collection of 17 interlinked global goals designed as a blueprint to achieve a more sustainable and just future

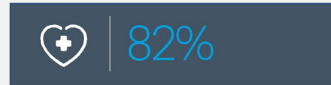


# Values-Based Decisions

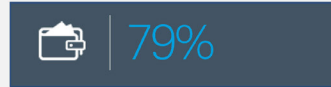
Values are issues that matter outside of pure financial interests. Values-based investors look beyond a company’s financial factors, such as returns, balance sheets and debt ratios and incorporate analysis of a company’s non-financial factors – business ethics, employee wellbeing or objectionable practices when making investment decisions. Today, 82% of Americans agree that their personal values play an important role in how they manage their finances, and personal values rank third on list of factors important when making a purchase.<sup>2</sup>

## Role of Personal Values *(Agree strongly/somewhat)*

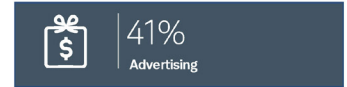
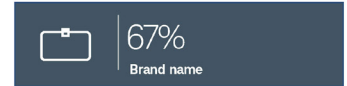
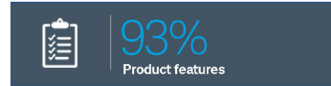
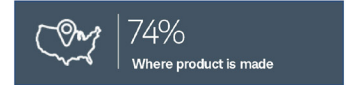
My personal values guide how I manage my finances



I try to use my purchasing power to support brands that I believe in



## Factor Importance When Making a Purchase *(Very/somewhat important)*



Values-based decisions are growing in popularity across multiple demographics, but is more pronounced among women and younger Americans, specifically Millennials (born between 1981-1996) and Gen Z (born between 1997 -2012).<sup>2</sup>

	All	Gen Z	Millennials	Gen X	Boomers
My personal values guide how I make life decisions more today than they did two years ago	73%	82%	79%	70%	64%
I am likely to change my lifestyle in the next year to have a positive impact on the world	70%	79%	74%	71%	57%
My personal values guide my investment choices	73%	82%	75%	73%	68%
I invest in companies that align with my personal values	69%	77%	73%	69%	63%

According to research by McKinsey and Company, “By 2030, American women are expected to control much of the \$30 trillion in financial assets that baby boomers<sup>3</sup> will possess—a potential wealth transfer of such magnitude that it approaches the annual GDP of the United States.” Similarly, a recent survey by UBS found that nearly 9 in 10 women believe money is a tool to effect change and 79% of women want to align their investments with their values.<sup>4</sup>

# 79%

It’s important to me that my investments align with my values.”

% who feel it’s highly important that their investments make a positive impact

## 67%

Environmental  
e.g., climate change, pollution control

## 67%

Social  
e.g., equality, inclusion, community development

## 62%

Governance  
e.g., board diversity, business ethics

<sup>2</sup> Charles Schwab Modern Wealth Survey 2022, May 2022, Schwab.com

<sup>3</sup> Women as the next wave of growth in US wealth management, July 2020, mckinsey.com

<sup>4</sup> Women on purpose, May 2022, UBS.com

# Values-Based Investing

Aligning financial goals with one's own personal beliefs is generally implemented via one or more of the following approaches:

1. Avoiding portfolio exposure to business practices and products deemed harmful, such as tobacco, child labor or adult entertainment.
2. Embracing or increasing portfolio exposure to companies doing good and making a positive impact, such as promoting human dignity, promoting justice or taking good care of their employees, community and environment.
3. Engaging with companies via proxy voting and shareholder advocacy to actively work toward changing corporate policies or activities for the better.

A high degree of customization and personalization sets values-based investing apart from other responsible investment strategies. These traits, while appealing to investors (estimated at 84%)<sup>5</sup> can be challenging to managers – values and beliefs vary from person to person, faith to faith and even traditions within the same faith can differ. Likewise, two investors with similar values may wish to take different approaches – one may divest from companies while the other believes engagement to be more effective.

Customization calls for a personalized approach because not everyone agrees on what constitutes appropriate or inappropriate business practices and products, or acceptable or unacceptable tolerance levels of the same. Add to this, a sea of data providers, but few standardized definitions or metrics to evaluate this ever-growing lens of investing.

With all these variables, it is imperative for values-based investors to examine the principles and processes of those managing their investments to distinguish true customization and personalization versus “check-the-box”.

First and foremost, values-based investing must always start with the client. Values questionnaires or other formative assessment tools can be used as a baseline, but to understand client motivations requires investors, advisors and managers to know each other on a more personal level. These are not to be conversations where an advisor or manager tells an investor which values are important, rather opportunities for discussion – participating and listening – centered on the investor's beliefs and interests to ensure investments remain faithful to same.

Additionally, clients rely on advisors and managers to stay abreast of the ever-changing trends in values-based investing. As with any investment offering, advisors and managers need to follow prudent practices within values-based investing to ensure strategies are appropriately created, implemented and monitored. Investment knowhow, values-based expertise and access to material resources are required.

<sup>5</sup> The Rise of Values Investing, May 2022, [abouthschwab.com](https://abouthschwab.com)

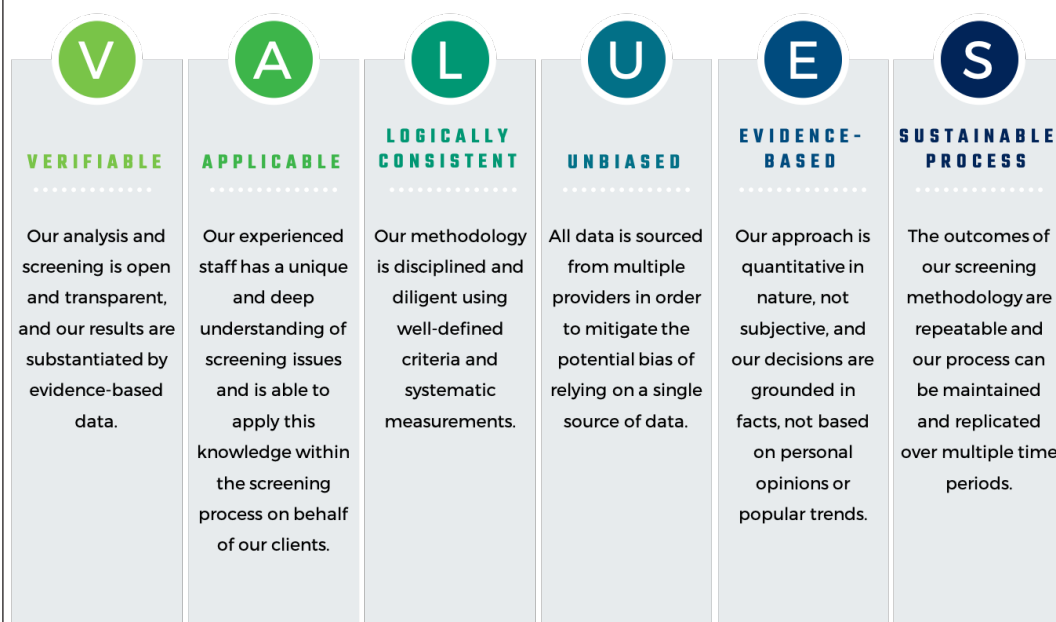
# Crossmark Advantage

Over 65% of Crossmark’s diverse client base - of retail, mutual fund, high-net worth and institutional investors - incorporate values-based principles in their investment portfolios and represent values across multiple personal, religious, social and economic beliefs. Through various strategies, Crossmark offers clients to ability to avoid, embrace and/or engage across multiple investment vehicles:

- Avoid – Not investing in companies with direct or material involvement in products and activities that are not in alignment with one’s values, deemed harmful or controversial (exclusionary screening).
- Embrace – Invest in companies with evidence of good corporate practices and create value by their actions to all stakeholders, like promoting justice or developing advanced technologies for the future, while taking good care of their employees, community and environment (inclusionary screening).
- Engage – Proactive execution of owner rights and responsibilities.

Crossmark leverages data from multiple, industry-leading providers to maximize out coverage universe and mitigate the potential bias of relying on a single source of data. Additionally, we conduct our own proprietary research on corporate activities, products and services. Investment decisions are based on detailed, issue-specific criteria and our over 25 years of experience in values-based investing.

Our methods are scalable and transparent to provide investors with clear evidence of why securities are included or excluded from a portfolio. Our VALUES screening process is robust and is described as follows:



## Conclusion

It is clear that “values-based investing” is growing as clients and prospects become educated on the subject and the tools available to get the job done. Crossmark’s expectation is that growth may accelerate as investors see the advantages and wisdom of alignment of values and investments.



## About Crossmark Global Investments

Crossmark Global Investments is a faith-based firm that creates, manages, and distributes values-based investment strategies that equip financial intermediaries and their clients to align their wealth with their passions and convictions. For over 30 years, the firm has delivered uniquely constructed products based on its proprietary, disciplined, and repeatable process. Founded in 1987, the firm is headquartered in Houston, Texas. For more information visit: [www.crossmarkglobal.com](http://www.crossmarkglobal.com).

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