Socially conscious investing in good times and bad: do good deeds get punished?

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Abstract

This study examines the performance of select "socially conscious"(SC) mutual funds and a control group of conventional funds during bullish and bearish financial markets. It also explores the interface between the historical returns of these funds and selectivity of their investment screening while controlling for such traditional attributes as age, expense ratio, size, and management turnover. Our data comes from Morningstar Direct database. In the interest of keeping our study most focused, we concentrate on "equity" funds and Class shares only. Results indicate that SC funds under perform conventional funds in both expansionary and recessionary periods, and over the short and long term, with one exception! Moreover, paradoxically, the financial performance of the SC funds generally improved as the number of social screens they adopted increased, but up to a point, though the gap narrowed as investment horizon became longer.

1. Introduction

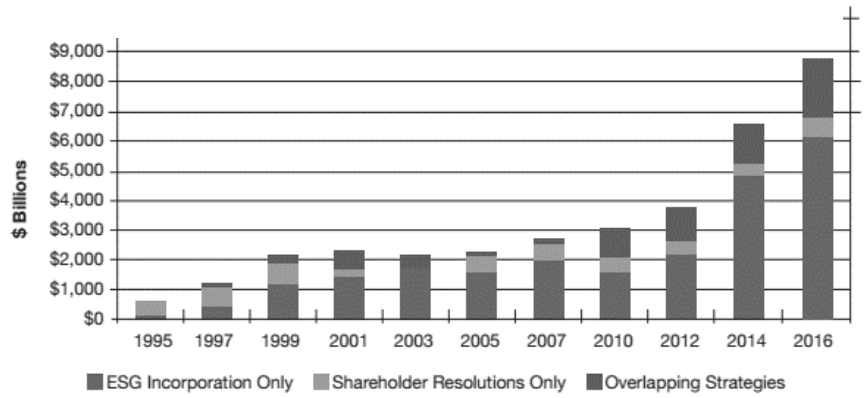
Socially responsible investing (SRI) also known as "ethical investing," "green investing," "impact investing," "mission-related investing," "sustainable, responsible and impact investing", "and "values-based investing" is an investment discipline that considers environmental, social and corporate governance (ESG) criteria in investment analysis and portfolio construction across a range of asset classes in order to generate long-term competitive financial returns and positive societal impact (The Forum for Sustainable and Responsible Investment, SRI Basics).

The institutional asset owners include public funds, corporations, educational institutions, foundations, faith-based investors, healthcare funds, labor union pension funds, nonprofits and family offices. Traditionally, such investors have focused on one or both of the following two strategies. The first is ESG integration. An important segment here (community investing) seeks explicitly to finance projects or institutions that will serve poor and underserved communities in the United States and overseas. The second strategy concerns those investors with shares in publicly traded companies who are proactive in filing shareholder resolutions and practicing other forms of shareholder engagement; see Figure A below for size and growth of the two segments during 1995-2016 (The Forum for Sustainable and Responsible Investment, Report on US Sustainable, Responsible and Impact Investing Trends, 2016).

At the start of 2016, the total assets under management using SRI strategies *grew* to $8.72 trillion, accounting for one out of every five dollars of the total of 40.3 trillion assets under professional management. From 1995, when the US SIF Foundation first measured the size of the US sustainable and responsible investing market and up to the beginning of 2016, the SRI universe has increased nearly 14-fold; a compound annual growth rate of 13.25 percent (Ibid).

Our review of literature on SRI uncovered several studies dating back to early1990s.In general, findings have been mixed which could be attributed to differences in the diverse geographic capital markets investigated, market indices used, asset classes being examined, number and size of

the chosen funds, length and timing of the periods studied, the chosen measures of return (raw or risk-adjusted) and risk (beta or standard deviation), or financial models that were used.



SOURCE: US SIF Foundation.

Figure A - Sustainable, Responsible and Impact Investing in the United States 1995-2016

Our study contributes to the extant knowledge on SRI as follows. First, the study period (2001-2016) allows us to examine SR funds' performance against a controlled group of other conventional funds and indices of market return during the *Great Recession* as well as periods before and after. Secondly, we will examine the performance of SC funds in terms of select aspects of such funds (i.e. expense ratio, number of screens used, asset size, management tenure, and age) and whether SR funds' selectivity in investment screening has adversely impacted their return by reducing the universe of companies that meet the eligibility criteria for inclusion in funds' portfolios.

The rest of this paper is organized as follow.Section2 describes the types of screens used by different mutual funds and how the scope of such screens has evolved over time. Section 3 provides a review of literature pertinent to the focus of this study. Section 4 presents the methodology and sources of data utilized and sections 5and 6reporton this our findings, conclusions, study limitations, and suggested directions for further research.

2. Types of Screens and Their Prevalence

The broad outlines of the ESG issues incorporated, according to the 2016 survey conducted by *The Forum for Sustainable and Responsible Investment*, are as follows:

- *Environmental* investment factors apply to $7.79 trillion in assets under management. Climate change criteria shape the investment of $1.42 trillion in assets under management, with more than fivefold increase since 2014. Clean technology is a consideration used by money managers with $354 billion in assets under management.
- *Social* criteria, which include those related to issues such as conflict risk, equal employment opportunity (EEO) and diversity, as well as labor and human rights apply to $7.78 trillion in assets under management.
- *Governance* issues apply to $7.70 trillion in assets under management, a twofold increase since 2014.
- *Product-specific* criteria, such as restrictions on investment in tobacco and alcohol, apply to $1.97 trillion in assets.

The full spectrum of screens used by various SC funds, detailed in Appendix A, includes the following: Alcohol, Animal Defence, Board Issues, Climate/Clean Tech, Community Development Diversity &EEO, Executive Pay, Gambling, Human Labour Relations, Conflict Risk, Pollution/ Environment/Other, and Tobacco.

Looking at the variety of screens adopted, some screens are selectively exclusionary (e.g. not investing in companies involved in gambling or alcohol industries or doing business in countries with repressive regimes) while others are selectively inclusive (e.g., investing in companies who make conscious efforts in protecting and improving the natural environment).

3. Literature Review

SRI has been the subject of much research since early 1990s with focus on its payoff compared to the conventional investments, as channeled largely through mutual or exchange traded funds. This section reviews findings of a number of individual studies and meta-analytic surveys of extant literature that have emerged since early 1990s.

On one hand, a number of studies have found SRI funds to have performed better or on par with the performance of traditional funds and/or market benchmarks (see, among others, D'Antonio et al. 1997; Guerard, 1997; Statman 2000; Aramson et al., 2000; Bauer et al., 2002; Boasson et al., 2004; Bellow, 2005; Kreander et al., 2005; Benson et al., 2006; Weber et al., 2010; Gil-Bazo et al., 2010; Humphrey and Lee, 2011).In this vein, a 2012 meta-analysis of more than 100 academic studies found incorporating ESG data in investment analysis had "correlated with superior risk-adjusted returns at a securities level" and SRI approaches that merely employed exclusionary screens, while showing little upside, did not underperform either(The Forum for Sustainable and Responsible Investment, Performance & SRI).

On the other hand, some studies have found SRI funds to have underperformed other types of funds or conventional market benchmarks, either significantly or insignificantly (see Hamilton et al., 1993; Malin et al., 1995; White,1995; and Reyes and Grieb, 1998;Aemec and Le Sourd, 2008; Jones et al., 2008; Renneboog et al., 2008; Cortez et al., 2009; and Climent and Soriano, 2011 as examples). In their meta-analysis of 85 studies and 190 international experiments between 1995 and 2015, Revelli and Viviani (2015) concluded that consideration of corporate social responsibility in stock market portfolios (stocks, bonds, funds, and indices) was neither a weakness nor a strength compared with financial investments.

Indicative of various studies conducted in this area, Gil-Bazo et al. (2010) suggest that investors in SRI funds have earned a premium in terms of risk-adjusted returns relative to conventional funds even though SRI funds charge higher fees. Using a sample of US green, other SRI and conventional mutual funds with open-ended equity orientation only, Climent and Soriano (2011) found environmental funds underperformed their conventional counterparts during the 1987-2001 period. However, green funds achieved adjusted returns not significantly different from the rest of SRI and conventional mutual funds during the period 2001-2009.

The US market is clearly the most studied in the early literature. Later studies extended the fund samples to multiple national markets. Bauer et al. (2002) examined the performance of 103 German, UK, and US screened mutual funds for the I990-2001period, and after adjusting for the funds' investment styles, found no difference in risk-adjusted performance as measured by Jensen's alpha between screened and unscreened funds. They noted, however, a "learning effect" where older screened funds appeared to outperform the younger ones. Cortez et al. (2009) found that European SRI Funds presented neutral performance in relation to both conventional funds and SR benchmarks. Aemec and Le Sourd (2008) investigated SRI funds in France and found none of the funds produced positive and significant alpha between 2002 and 2007. In Australia, Jones et al. (2008) report that ethical funds significantly underperformed the market, particularly during 2000 to 2005 period. Renneboog et al. (2008) constructed a database that contained SRI funds and conventional mutual funds domiciled in 17 European countries. They found that average SRI funds had negative alpha. The SRI funds' alpha underperformed their conventional counterparts in almost all countries, though not statistically significant for some countries. Humphrey and Lee (2011) investigated27 SRI funds in Australia and found investing in SRI funds did not result in either penalty or reward for investors compared to investing in conventional funds.

The performance of SRI funds also appears to be time dependant.Koellner et al. (2007) found risk adjusted return was lower for SRI funds compared to conventional funds during 2000-2004 and 2002-2004, but higher in 2004. Amenc and Le Sourd (2010) tested whether SRI funds provided protections during financial crisis using world SRI funds. They found that SRI funds provided no protection from market downturn as illustrated by the increase in risks. Weber et al. (2010) used 151 self-identified SRI funds worldwide and found SRI fund portfolios offering higher return than MSCI index, especially in the bull market.

In order to understand the difference in performance between SRI funds with their conventional counterparts, some studies tend to examine whether the performance of SRI funds were related to the number and types of screening process used (Sauer, 1997; Barnett and Salomon, 2006; Renneboog et al. 2008; Lee et al., 2010; Laurel, 2011; Humphrey and Lee, 2012; and Capelle-Blancard and Monjon, 2014). Sauer (1997) used the Domini Social Index (DSI), which is made up of 400 stocks passing the social screens test. DSI's monthly returns for the period 1986-1990 were compared to two market indices - S&P 500 and CRSP value Weighted Market Index. He found that costs associated with applying social screens were negligible and did not adversely affect the performance of DSI. Barnett and Salomon (2006) suggest that community relations screening increases financial performance of US SRI funds during 1989-2006, while environmental and labour relations screening decreases the return. Their results are confirmed by Lee et al. (2010) for the 1989-2006 period. Renneboog et al. (2008) examine the influence of the screening activity on risk adjusted returns and risk exposure of SRI funds in 17 countries over the 1991-2003period. They show that the overall number of screens significantly reduces risk adjusted returns, while the number of ethical or environmental screens do not have any significant impact. Humphrey and Lee (2011), however, report that positive or negative screening had little impact on financial performance of SRI funds in the Australian setting, although, increasing the number of positive screens significantly reduced total and diversifiable risk. Based on a sample of French SRI Funds, Capelle-Blancard and Monjon (2014) found that higher screening intensity reduced the risk-adjusted return. However, this result held only for those funds who avoided 'sin' stocks or nuclear industry. Transversal screening criteria did not necessarily lead to poor diversification and did not reduce financial performance.

4. Data Selection and Methodology

Our data comes from *Morningstar Direct* survivorship-bias-free database, which is considered to be one, if not the most comprehensive source of information on U.S. mutual funds. Since some mutual funds invest in different types of financial and physical assets and also vary in their investment objectives, in the interest of keeping our study most focused, we concentrate on "equity" funds only. There are 31,143 U.S. equity open-end funds, of which 766 funds are identified as "socially conscious" according to Morningstar classification.

Many funds have multiple share classes, which differentiate funds within fund families in terms of expenses and sales charges. We limit our analysis to "A share" class only as it typically carry front-end sales charges, which are paid out of investors' initial investment. Compared with other share classes, "A shares" are usually the most cost-effective for long-term investors. There are 106 socially conscious "A share" mutual funds. Funds with no return data are deleted, which leaves the final sample of 84 socially conscious funds.

As a comparison group, we created a matching conventional mutual funds sample controlling for the fund age, investment style, market capitalization and type of share class. Our initial matching sample contains 4157 funds and matching sample contains 75 conventional "A share" funds.

Our study period spans from 2001 through 2016 thus including the boom stock market era as well as 2008 global financial crisis period. We collected monthly and yearly returns and information on certain fund characteristics such as expense ratio, asset size, management tenure, date of inception etc. To identify the number of screens that each fund used, we initially looked at the

USSIF- The Forum for Sustainable and Responsible Investment. Funds self-report the screening information to USSIF regarding environment, social, governance and products. There are a total of 15 screening criteria listed under these four categories, as reported earlier (see Appendix A for detailed explanation of each criterion). For funds not listed on USSIF, we retrieved investment information from their prospectus sourced from either Bloomberg or fund's website. Four funds were eliminated because no screening information can be found. There were also 6 faith-based funds. The screening criteria of these mutual funds differ from that of traditional funds, not included in the aforementioned list. The numbers of screens they use are counted as one. We retrieved the data on funds' performance for our SC and conventional groups; to be compared with the widely used market benchmark (S&P 500) that we felt is most appropriate for well-diversified mutual funds for various time periods.

5. Findings

Table 1 summarizes performance of the SC and conventional funds in terms of short, medium, and long term performance, risk-adjusted returns measured by Sharpe Ratio. It also compares returns according to selected characteristics of those funds such as expense ratio, size as measured by market capitalization, turnover, and their asset concentration as measured by the percentage invested in top ten stocks (holdings/companies). We found the following:

- Both groups invest approximately 29 to 31 percent of their assets in the top ten holdings.
- SC funds, as expected, have a slightly higher expense ratio.
- SC funds as a group underperform the conventional funds on the basis of 1-, 5- and 10-year returns, but outperform on the basis of 3-year return. The differences in returns between the two groups are smaller compared to their respective performances vis-à-vis market return.
- SC funds, as a group, also showed lower risk-adjusted returns as measure by Sharpe ratio.
- SC funds underperform conventional funds during both expansionary and recession periods.
- SC funds have lower turnover and larger market capitalization.

	Social Funds	Conventional Funds	S&P 500
1 year (Std Dev)	-1.73 (15.66)	8.92 (13.9)	24.56 (10.29)
3 years (Std Dev)	7.49 (9.12)	3.66 (5.42)	11.13 (10.74)
5 years (Std Dev)	6.18 (5.91)	10.86 (4.34)	14.18 (10.37)
10 years (Std Dev)	4.86 (2.54)	5.27 (3.27)	
Dec.2001-Nov. 2007 (expansion)	0.62	1.01	0.34
Dec. 2007- June 2009 (recession)	-2.02	-1.98	-0.52
July 2009- Dec. 2016 (expansion)	0.92	1.08	1.08
Sharpe Ratio (1 yr)	0.08	1.41	
Sharpe Ratio (3 yr)	0.34	0.47	
Sharpe Ratio (5 yr)	0.61	0.78	
Sharpe Ratio (10 yr)	0.30	0.34	
Expense Ratio %	1.33	1.25	
Average Market Cap ($millions)	2,152.98	1,958.07	
Turnover	66.29	73.46	
Percent of Assets in top ten holdings	29.37	31.19	

Table 1 - Funds' Performance and Characteristics - A Comparison

Rate of Return %	Number	Mean	Standard	Minimum	Maximum

	of funds		Deviation		
1 Year	49	-1.30	7.714424	-24.28	18.16
3 Year	48	10.45	7.737263	-16.16	33.85
5 Year	43	8.65	4.014384	-3.74	15.82
10 year	25	5.94	1.673126	0.22	7.90

Table 2 - Measures of Dispersion of 1-, 3-, and 5- Years Return of the Sampled SC Funds

Table 3 presents statistics for other characteristics of the SC funds. The mean number of screens was 9.96 with minimum of 1 and maximum of 15. The average management tenure was 5.43 years and average fund age was 13.32 years.

	Mean	Standard Deviation	Min	Max
Turnover	66.29	56.72	1	304
Percent of Assets in top ten holdings	29.37	11.51	0.04	81.96
Number of Screens	9.96	5.06	1	15
Management Tenure (Yrs.)	5.43	3.05	0.08	11.25
Fund's Age (Yrs.)	13.32	8.50	1.88	64.24

Table 3 - Descriptive Statistics of the Sample SC Funds (84 funds)

Table 4 shows the mean historical returns grouped by rigidity of investment screening that SC funds adopted. There are 20 funds that employed 1-4 screens and majority of the funds employed 10-15 screens. Contrary to Barnett and Solomon (2003) which found the relationship between social and financial performance to be curvilinear, our sample shows that generally financial performance improved as the number of social screens increased, until it reached a high point of around 5-9 screens, then turned back down, decreasing as the number of screens increased. In 3-year (5-year) period, funds with 5-9 screens have highest mean return of 16.3 (10.77) percent. These may be anomalies given the few (6) number of funds in that category. Lastly, funds that employed 1-4 screens show lower returns than funds which employed 10-15 screens. However, the gap becomes narrower as investment horizon becomes longer.

Number of Screen	1 Year	3 Year	5 Year	Count
1-4	-8.12	3.73	5.29	20
5-9	-0.74	16.3	10.77	6
10-15	1.22	8.26	6.43	54
All SC Funds	-1.26	7.74	6.41	80*

*4 funds have no screening information.

Table 4 - Mean Funds Return (%) by the Number of Screens Used

Next, we proceed to examine a number of funds' characteristics and their relationship with the funds' returns. Following is the list of the characteristics we have chosen and the rationale behind their selection.

- Age: how many years the fund has been in existence? Identifying companies that pass the myriad of social screens that some funds employ while demonstrating satisfactory returns meeting funds' managers/shareholders expectations is a complex process. We expect older funds with more experience in such screening to demonstrate better performance.
- Asset size (ln): total assets managed by a fund. Larger size is expected to produce economies of scale thereby reducing costs and improving performance. The natural log transformation is a standard procedure in reducing the variability of this feature of funds' characteristics.
- Expense ratio: amount spent by the fund as a percentage of assets. Higher expense will absorb some of the return.
- Screens: The number of screens applied in development of the fund's portfolio. As per SRI principles, if a company passes several screens and still meets the criteria based on its

financial performance, it should help the fund improve its risk-adjusted returns.

We ran regression between return (one, three, five and ten years) and aforementioned features of the fund. Our findings are summarized in the next two paragraphs. (Detailed results can be provided upon request).

In general, the explanatory variables selected account for 14 to 40 percent of the variations in funds' historical returns. Expense ratios are statistically significant for three and five-year return, but not for one and ten-year return. Management tenure is only statistically significant for three-year return. In other words, neither the age of the SC funds nor their size or selectivity in investment screening seem to have affected the funds' returns in any systematic and statistically significant manner. The coefficient signs for our explanatory variables show a consistent pattern in all cases except fund size. In more cases, they conform to a priori expectations, albeit statistically insignificant. Since analysis of the possible impact of the selectivity of the screening process used by SC funds in constructing their investment portfolio was a key focus of our study, we decided to evaluate the relationship between the number of screens used and their investment returns using an alternative approach to measure funds' selectivity.

We repeated the previous regression analyses with one change. In addition to the independent variables of funds' age, size, management turnover and expense ratio, we add a dummy variable as a proxy for funds' stringency in screening. That is to say, if the number of screens used is above the mean for our sample, we assign a value of one to the dummy; otherwise it is zero. By measuring the selectivity of the screening process both as a continuous and as a discrete variable, we hope to have captured any impact that funds' returns may have experienced as a result of the stringent criteria that fund's managers may have used in selecting companies for inclusion in their investment portfolio.

Results of the latter analysis are similar to those reported earlier. The explanatory power of this group of variables is between 14 to 41 percent. Expense ratio remains significantly negative for the one, three and five-year returns, suggesting higher expenses reduce returns. Our results also show that the stringent criteria that fund managers have employed are positively related to one and three-year returns suggesting screening does benefit the performance of mutual funds.

In summary, how funds' selectivity in investment screening is measured has influenced fund performance. Due to the curvilinear relationship between social and financial performance, if we use continuous social variable, the linear regression shows that there is no statistically significant relationship between number of screen used and fund performance. However, when discrete social variable is used, the SC funds do seem to have been influenced over the short or medium term by the number of screens employed. Furthermore, funds' size and age were found to be statistically insignificant; funds' expense ratio and management turnover emerge as the factors that influenced the historical returns of SC funds over time.

	Coefficients	*Standard Error*	*t Stat*
Intercept	1.635887	20.57767	0.079498
ln(Market Cap)	0.359068	0.786384	0.456606
Fund age	-0.08552	0.130439	-0.65561
Manager Tenure (Average)	0.196452	0.376871	0.521272
Expense Ratio	-7.61295	4.749913	-1.60276
Screens	0.052614	0.258006	0.203924
R Square	0.140561		
F-statistics	1.406523		

6. Conclusions, Limitations, and Suggestions for Future Research

As an investment strategy, SRI integrates investors' social, environmental and ethical

concerns with their financial objectives as they analyze performance of various companies for inclusion in their portfolio. SC investing has significantly grown in popularity in United States and several other regions of the World, particularly Europe (notably U.K., France, Sweden, and Belgium) and Asia (Japan).

The remarkable growth of SRI has been attributed to a number of factors including a) creation of financial indexes that use social responsibility selection criteria such as RobecoSAM previously known as the Dow Jones Sustainability Index or DJSI, b) empirical evidence showing that SRI does not imply lower profitability, and c) new investor attitudes showing increasing commitment to social and environmental issues. A new paradigm is emerging to demonstrate that social, environmental and ethical issues can be incorporated into financial analysis of a company, which in tum contributes to minimizing risk by anticipating and preventing crises that might affect companies' reputations and consequent decline in share prices (Lozano et al. 2006).

With the introduction of SC funds, the burden of spending time and money to identify companies engaged in socially responsible operations has been taken away from the individual investors. In addition, several employer sponsored retirement plans such as 40IK and 403 B have also added the option of SCfunds to their investment menu making it easier to choose investment policies that match one's value system, Any guidelines that could be provided to individual investors to make informed choices about allocating their funds would be another step in the right direction.

Drawing on a comprehensive database on mutual funds, a carefully paired grouping of SC and comparable types of conventional mutual funds, and a decade long study period, our results indicate that SC funds' historical returns have been lower than the conventional funds during boom and bust stock market conditions of the 2001-2016 period. Furthermore, the financial performance of the SC funds generally improved as the number of social screens increased, up to a point, over short and long terms, though the gap narrowed as investment horizon became longer.

Our study, as noted earlier, focused on class A share equity funds and thus findings are limited to this subset of SC funds.

When deciding on which SC funds to choose, investors do need to pay attention to the expenseratio and management turnover of the fund as they appears to be the major factors which tend to influence the SC funds' returns. Neither age of the SC funds nor their size or selectivity in investment screening seem to have affected the funds' returns in any systematic and statistically significant manner.

In general, based on results of our study and numerous others that have compared the performance of SC funds relative to the conventional funds or market return suggest that the smaller universe of potential investment opportunities that the adoption of SC investing involves has not necessarily resulted in consistently and significant sub-par return. Indeed, as Hill et al (2006) note from their findings and results of several other studies, "being viewed as socially responsible by investors may impact positively the valuation of firms over the long run "echoing Hickmanetal (1999) conclusion that "socially responsible funds may be valuable contributors to portfolio risk reduction".

In principle, investing with certain social and ethical values in mind, may at times involve a tradeoff of foregoing higher potential return in exchange for "doing good". On balance, though, such approach to investing as evidenced by extensive empirical results has served investors well as trends in investors' capital directed at ethically and socially purposeful outlets corroborates the momentum that SRI is gaining among both individual as well as institutional investors.

Based on our review of literature and study results, two potential directions for future research are suggested. First, it would be instructive to compare SC funds' performance and a

carefully selected controlled group of conventional funds focusing on their investment objectives (e.g., equity funds, bond funds, money market funds, asset allocation funds, etc.) and doing so over time and compared to both standard measures of market return (such as S&P 500) and such performance benchmarks for SC funds as Calvert or Domini's Social Index. Secondly, the vast majority of studies on SRI have looked at them as a group; case studies of larger or smaller controlled pairings of SC, conventional funds, and market benchmarks should prove informative for a deeper understanding of socially screened value based investing.

As a final note, we agree with Lozano et al (2006) that SRI should be viewed not as an end in itself, rather a fundamental element of a larger framework of corporate social responsibility whose objective is "to influence business attitudes in order to achieve a more sustainable development".

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Appendix A

Climate/Clean Tech – Focus on risk and opportunities related to climate change and greenhouse gas emissions, or on businesses dedicated to environmentally sustainable technologies, efficient use of natural resources, or mitigating negative ecological impacts; includes clean energy generation, infrastructure and storage.

Pollution/Toxics – Consideration of toxicity of products and operation and/or pollution management and mitigation, including recycling, waste management and water purification.

Environment/Other – Focus on environmental issues outside of criteria specified here.

Community Development – Focus on provision of affordable housing, fair consumer lending, small and medium business support and other services and support to low- and medium-income communities.

Diversity &EEO – Consideration of diversity and equal employment opportunity policies and practices relating to employees, company ownership or contractors.

Human Rights – Consideration of risks associated with human rights and companies' respect for human rights within their internal operations and the countries in which they do business, often with particular emphasis on relations with indigenous peoples, supply-chain management and conflict zones.

Labor Relations – Consideration of companies' labor or employee relations programs, employee involvement, health and safety, employment and retirement benefits, union relations or workforce reductions.

Sudan – Exclusion or partial exclusion of companies that conduct business in Sudan because of its human rights abuses or support of terrorism.

Board Issues – Consideration of directors' independence, diversity, pay and responsiveness to shareholders.

Executive Pay – Consideration of companies' executive pay practices, especially whether pay policies are reasonable and aligned with shareholders' or other stakeholders' long-term interests.

Alcohol – Exclusion or partial exclusion of companies involved in the production, licensing and/or retailing of alcohol products, or in the manufacturing of products necessary for production of alcoholic beverages, as well as ownership by an alcohol company.

Animal Welfare – Consideration of companies' policies and practices toward animals in consumer product testing, where such testing is not legally required, particularly where such tests inflict pain or suffering on the test animals, and on the treatment of animals raised or used for food and other goods and services.

Defence/Weapons – Exclusion or partial exclusion of companies that derive a significant portion of their revenues from the manufacture or retailing of firearms or ammunition for civilian use, or from military weapons.

Gambling – Exclusion or partial exclusion of companies involved in licensing, manufacturing, owning or operating gambling interest.

Tobacco – Exclusion or partial exclusion of companies involved in the production, licensing, and/or retailing of tobacco products, or in the manufacturing of products necessary for production of tobacco products.