High Pointe Capital Management, LLC
One North LaSalle, Suite 2001
Chicago, Illinois 60602
312.726.2500
312.726.6100 fax
www.highpointecapital.com

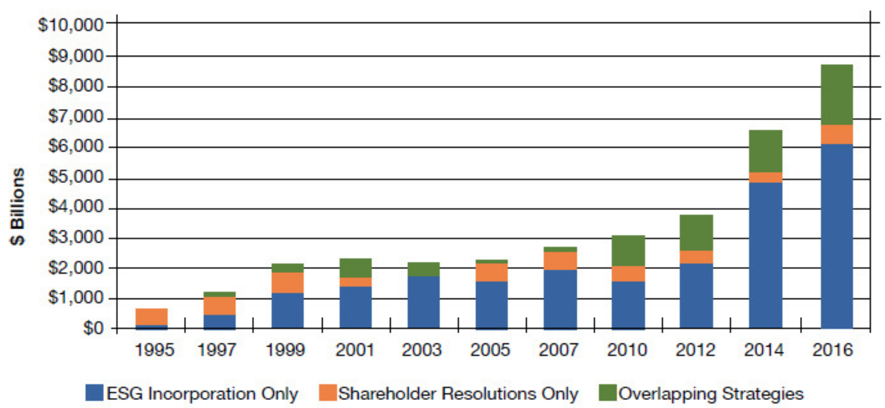
Innovate. Deliver.

High Pointe

Doing Well by Doing Good

Socially responsible investing, often also called ESG Investing (Environmental, Social and Governance), has become a popular topic of discussion among investment management firms and their clients. Clients are increasingly asking that their investments not only realize financial goals but also tackle more societal concerns, such as improving the environment, addressing diversity and human rights issues, and ensuring companies are run in shareholder-friendly manner. The industry has evolved quite a bit from the days when socially responsible investing simply meant excluding tobacco, alcohol, gambling and coal companies.

According to The Forum for Sustainable and Responsible Investment, growth in assets managed using some ESG criteria has grown steadily over the last few years and now totals over $9 trillion as shown below.



Source: The Forum for Sustainable and Responsible Investment

The chart shows a 14-fold increase in ESG-related investing since 1995 and such investments account for more than one of every five dollars under professional management in the United States.

More specifically within the fund management industry, the concept has evolved rapidly to the point where there are now over 200 "Socially Conscious" mutual funds and exchange traded funds identified by Morningstar, with more being established every day.[1]

[1] Charles Schwab Socially Conscious Funds List – Second Quarter 2018

This phenomenon is increasingly having an effect on corporate management and boards. In fact, environmental and social shareholder proposals accounted for 41% of all documented shareholder proposals in 2017, up from 33% in 2016.[2] And ESG issues are now influencing credit rating agencies and companies' access to the bond market. For example, S&P Global Ratings had 106 cases between July 2015 and August 2017 where environmental and climate concerns directly impacted a company's rating through either an upgrade, downgrade, outlook revision or CreditWatch placement.[3]

Companies are discovering that they need to pay attention to ESG issues in order to attract and retain the best talent. This is particularly relevant when it comes to hiring and retaining the younger generation, Millennials in particular. As we can see in the chart below, socially responsible issues, to quite an extent, drive Millennial loyalty and engagement in the workforce.

Millennial Workforce's Preferences

Job Attraction and Loyalty	75% would take a pay cut to work for a responsible company (vs. 55% U.S. average)
	83% would be more loyal to a company that helps them contribute to E&S issues (vs. 70% U.S. average)
	46% more likely to stay 5+ years if they have opportunities to contribute to charities / good causes in their workplace compared to those without
	88% say their job is more fulfilling when they are provided opportunities to make a positive impact on E&S issues (vs. 74% U.S. average)
	76% consider a company's social and environmental commitments when deciding where to work (vs. 58% U.S. average)
	64% won't take a job from a company that doesn't have strong CSR practices (vs. 51% U.S. average)
Job Engagement	88% think it is important their employer shares goals, progress and achievements related to CSR efforts (vs. 75% U.S. average)
	89% want to be active participants in helping their company improve its responsible business practices by providing feedback, ideas and potential solutions (vs. 78% U.S. average)
	89% expect employers to provide hands-on activities around environmental responsibilities in the workplace (vs. 77% U.S. average)
	83% want their company to provide support and resources for them to make positive social and environmental changes at home (vs. 70% U.S. average)
	84% want their company to help them identify ways to get more involved in their communities (vs. 65% U.S. average)

Source: Cone Communications 2016 Millennial Employee Engagement Study

[2] Shareholder Proposal Developments During the 2017 Proxy Season, Harvard Law School Forum, July 12, 2017

[3] S&P Global Ratings, How Does S&P Global Ratings Incorporate Environmental, Social and Governance Risks into Its Ratings Analysis, November 2017

HIGH POINTE

At High Pointe, we have acquired an increasing amount of robust ESG data that can be used to thoughtfully and quantitatively analyze companies. Our database has ESG data on over 7,000 companies globally addressing over 400 different ESG metrics with over 10 years of historical data categorized as follows.

Environmental Factors
1. Resource Use (e.g., water efficiency, use of renewables)
2. Emissions (e.g., CO_2 emissions, waste reduction initiatives)
3. Innovation (e.g., designing and using eco-friendly products)

Social Factors

4. Work Force (e.g., health, training and development, diversity)
5. Human Rights (e.g., child labor safeguards)
6. Community (e.g., business ethics, community involvement)
7. Product Responsibility (e.g., data privacy, customer safety)

Governance Factors

8. Management (e.g., board independence and diversity)
9. Shareholders (e.g., equal treatment, no takeover defenses)
10. CSR Strategy (e.g., sustainability reporting)

High Pointe's primary focus remains the investment returns of our portfolios and outperforming associated benchmarks but we have found that ESG data can be useful in discerning the quality of companies. We recently conducted original research into the topic of ESG Investing and documented it in a whitepaper entitled, "ESG Investing: A Constraint or An Opportunity". We presented this paper at the CFA Society Chicago Symposium last September. The conclusion of our research is that ESG considerations do not act as a constraint on one's ability to maximize investment returns and that an investor can apply ESG factors as part of a holistic investment process to extract the value inherent in them.

We intend to stay in the forefront of this important trend and will incorporate it in the best way possible to enhance the risk-return tradeoff in our portfolios.

Chris Olson and Gautam Dhingra
July 17, 2018