



Values-Based Investing

Introduction

Values-based investing (VBI) is a steadily growing movement in the marketplace where moral values are key components of investment strategies. Although investment performance has not historically been the focus of VBI, the increasing body of research confirms that this approach has the potential to improve overall investment returns.¹ As a result, we assist clients in determining their values-based profile and integrate it with the Level Paths profile to form a unified values-driven process. This essay is an overview of the Level Paths' methodology, and it reflects my own personal philosophy and practice.

As an Evangelical Christian, I strive to base financial decisions on a biblical worldview, so my convictions identify with the field of Biblically Responsible Investing (BRI). Although Christians are called to demonstrate God's love through their daily lives and sometimes separate themselves from certain societal practices, BRI is not about clean-versus-dirty portfolios, nor is it about perfect companies, as if some kind of self-righteousness were possible.² BRI is a rigorous investment process which seeks to partner with companies who understand that the *purpose of business is adding value to the lives of others*.

"...Healthy, sustainable businesses are, of course, profitable – but they make their profit by creating real value for customers. They consider profit the byproduct of serving well the needs of customers (and of employees and society). For many other companies, however, profit maximization, not value creation, is their highest purpose. As a result, these companies increasingly make their profit at the expense of their customers. Instead of creating value for customers, they end up extracting value from their customers."

- 'Bad Profits versus Good Investing.'
www.eventidefunds.com marketing piece

Thus my process seeks to invest in companies that *bless* others through value creation and separate from those who *plunder* others through value extraction.³ I research traditional financial metrics, yet I focus on the 3 P's of every investment candidate: their *Process*, *Products*, and *Priorities* to evaluate *how* they produce, *what* they produce, and *where* they spend their profits.

3 P's Moral Audit System

Process: *how they produce* (The Means)

Internal and External Relations:
Employee, Partner, and Supplier Relations;
Environmental Impact

Products: *what they produce* (The Ends)

Products & Services Offered

Priorities: *where they spend profits* (The Treasure)

Corporate Citizenship (local & overall society)

In this biblical moral audit, minimum (or zero tolerance) standards apply for the *Process* and *Products* metrics because these categories are directly tied to revenue generation, which is central to the contractual relationship between a company and its investor. As for how a company spends its profits, this is outside the scope and terms of an investment transaction, so no automatic disqualifying standard applies. (For details and the rationale for the *biblical standard for action*, see the VBI Supplemental FAQ's). Thus, for all eligible investment candidates, our scoring system evaluates long term value creation as follows:

Process: 30% possible
Products: 50% possible
Priorities: 20% possible

As stated, there are no perfect companies, yet it is possible for a business *model*, when executed with integrity, to earn a perfect score.

Process: *How they produce* (The Means)

The universal focus and minimum standard for Values-Based Investing (VBI) is to avoid 'ill-gotten gain, or *'gain acquired by dishonest, improper, or evil means,'*⁴ so we carefully evaluate both the internal and external practices of our investment candidates. One external area is environmental impact, because it certainly affects everyone. Our minimum standard is that companies must avoid chronic environmental violations, and those who experience environmental accidents must demonstrate good faith reparation. As for internal practices, we also maintain zero tolerance for companies who engage in oppressive wage or labor practices. One such example is the adult entertainment industry because its very production is the practice of sexual immorality.

Other areas of production, however, such as employee relations, do not trigger automatic disqualification. For example, companies who sponsor employee benefit provisions favoring alternative lifestyles contrary to Judeo/Christian values are *not* disqualified. Although alarming, such practices are non-revenue generating and outside the contractual relationship with the shareholder. Such companies do, however, warrant

lower value creation scores for this metric and are often excluded. Simply stated, high marks are given to companies who demonstrate exemplary business relationships and environmental practices.

Products: What they Produce (The Ends)

The highest scores in our system go to companies who produced outstanding products or services, because more than anything else, products embody the kind of value a company provides for others. Some products are more questionable in value, so we assist our clients in reviewing those that typically come under scrutiny such as adult entertainment, contraceptives and abortifacients, bioethics/stem cell, gambling, alcohol, tobacco, and firearms.

For many Christians, it is commonly recognized that some products are inherently immoral because their only use is for acts of wrongdoing (i.e. gambling, pornography, abortifacients). My practice is to disqualify these businesses from investment. Other products are not immoral in themselves, yet their misuse leads to immorality. Indeed some of these products provide some benefit when used appropriately or with moderation (i.e. alcohol, tobacco, firearms), and they do not trigger disqualification in my system. More practically, however, they receive lower value creation scores which typically prevents investment. As for firearms, I generally regard them favorably because they serve an important and biblical role when used for governing authority and security, personal protection, and in man's ability to hunt, harvest, and maintain dominion and care of earthly creatures.⁵ However, strict enforcement of firearms laws is imperative regarding the use and potential misuse of these products.

Priorities: Where they spend profits. (The Treasure)

This final metric evaluates corporate citizenship and charitable support of social issues. Evangelicals vary in their views regarding a minimum standard for this category, and many disqualify companies that contribute to Planned Parenthood (an abortion provider) or LGBT (Lesbian, Gay, Bi-sexual, Transgender) causes. Again, I generally permit investment because the issue is non-revenue generating and remains outside the contractual arrangement (and control) of shareholders. Similarly, it is helpful to note that this biblical freedom is applied to tax-payers, depositors, consumers, and employees of entities who make such contributions, because none of these transactions afford control or responsibility over how the company spends its profits. As expected, however, corporations that sponsor causes or lifestyles contrary to biblical Judeo/Christian values garner lower

overall value creation scores in our system resulting in exclusion from a preferred portfolio.

Conclusion and Invitation

VBI, as applied through our 3P Moral Audit System, is indeed a more rigorous investment process than a traditional financial analysis, yet the majority of companies in the marketplace pass our screens and remain eligible for consideration. However, the higher goal of our system is to further prioritize our portfolios across a diversified group of companies that truly excel in value creation. An outstanding example of this is Celgene, one of the world's most innovative biotech companies, and a leader in corporate governance, citizenship, and employee relations. Over the past ten years the company has seen tremendous growth in its total patents (over 400) and the discovery of many new promising drugs. As a result, Celgene's stock price has more than tripled over that same period.⁶

While such investment results are never guaranteed with VBI, industry research is now recognizing that partnering with exemplary businesses who add value to the lives of others can be both satisfying *and* profitable. I invite you to learn more about this exciting process and the details of our investment portfolios. *We look forward to an opportunity to serve your financial planning and investment needs.*

Mark

Mark T. Riefer
President



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- Unless noted otherwise, biblical references are from the English Standard Version (ESV).

¹ "A Research Study on CIF Member Funds Composite Performance Relative to Industry Averages." John Silverling, Christian Investment Forum May, 2015.

² Romans 3:10

³ *Our moral metrics were influenced by leaders in the BRI field such as **Stewardship Partners** (www.stewardshippartners.com), and **Eventide Funds** (www.eventidefunds.com), and our framework shares similarities with Eventide's *Business 360 Assessment* in particular.

⁴ Webster's Dictionary

⁵ Genesis 9:1-3

⁶ Summary excerpt, *Celgene Full Company Report, 'Good Steward Company'* [BRIinstitute](http://BRIinstitute.com) 10/15/15)