

# Measuring SRI's Impact on Performance

*Updated Study Tracks Long-Term Effect of Stock Screens on CBIS Portfolios*



**CBIS**

*Christian  
Brothers  
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Services, Inc.*

**I**N ORDER TO HELP CATHOLIC INSTITUTIONS analyze the effect of SRI policies on investment return, CBIS recently updated an analysis of the impact of Principled Purchasing restrictions on the long-term performance of our CUIT core equity and value equity portfolios. Following are highlights from the updated report.

## Key Performance Drivers

The return produced by any SRI program depends primarily on two factors:

1. The results produced by the underlying investment program, independent of SRI policies.
2. The degree to which SRI policies constrain investment strategy (primarily the impact of stock screens).

Portfolio strategy is the central driver of an SRI program's return, just as it is for non-SRI programs. But burdensome SRI criteria can impair a manager's ability to implement its preferred strategy, and might affect performance.

## A Focus on Active Ownership

Active ownership, rather than stock screens, is the focus of our SRI program. Our ability to shape the behavior of companies comes from owning their shares and exercising leadership with fellow shareholders to encourage improved corporate policies in areas such as governance, wage justice, environmental sustainability and support for human rights around the world.

## Limited Stock Screens

Our stock screens (what we call Principled Purchasing) focus only on activities that so violate the core values of our participants that they are unwilling to profit from them. For example, as of March 31, 2013, 33 companies (about 12% of the S&P 500's total capitalization) were restricted from the CUIT Core Equity Fund, an S&P 500

index tracking portfolio. We develop our screening criteria by examining Church teaching (including the United States Conference of Catholic Bishops' [USCCB] guidelines for socially responsible investing), the consensus views of our participants on a wide range of issues, and the priorities of the larger SRI community.

## SRI Portfolio Construction

The potential impact of our screens on investment return is further reduced by the way our managers construct their CBIS portfolios.

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**We measure SRI impact as the difference in performance between the CBIS portfolio and the managers' comparable unscreened portfolio for each investment style.**

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1. **Screening** — The manager removes screened companies from its unrestricted portfolio.
2. **Substitution** — The manager substitutes unrestricted companies for the restricted companies. Often, these are companies operating in the same industry as the restricted company.
3. **Rebalancing** — If close substitutes are not available, the manager may choose to reallocate the remaining capital across the unrestricted portfolio holdings, synchronizing the structure of the SRI portfolio as closely as possible with that of the comparable non-SRI portfolio.

The process of screening, substitution and/or rebalancing produces the

CBIS SRI portfolio — very close in structure to the manager's original portfolio; managed with the same investment philosophy, strategy and process; and composed of nearly the same group of portfolio holdings.

## Measuring SRI Impact

The net effect of screening, substitution and rebalancing constitutes the impact of our SRI policies on the returns generated by CBIS portfolios. We measure this impact as the difference in performance between the CBIS portfolio and the managers' comparable unscreened portfolio for each investment style.

## Conclusion

The relatively small size of CBIS' Principled Purchasing list and the very large universe of unrestricted stocks available for substitution give our managers considerable leeway to counter any potential impact from our screens.

Because our screens — and the resulting substitution and rebalancing — result in a slightly different portfolio than the managers' unscreened portfolio, there will be some variation in comparative performance on a short-term basis.

However, our analysis of long-term performance clearly demonstrates that CBIS' SRI restrictions do not constrain our ability to deliver investment returns that are comparable to those available through our managers' equivalent non-SRI programs. ■

For the complete report, please contact your CBIS Investment Advisor or:

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