



EIC HUMAN RIGHTS VALUE

"...the baseline responsibility of companies is to respect human rights."

-Protect, Respect and Remedy: a Framework for Business and Human Rights¹

EIC Human Rights Value seeks to invest prudently while respecting U.N. conventions and guidelines regarding human rights. Using research inputs from MSCI, Inc., EIC has established negative and positive screens to eliminate holdings that we believe violate the **spirit** of various U.N. guidelines. Investments are drawn principally from EIC's existing holdings in Large-Cap Value (LCV), All-Cap Value (ACV), and Mid-Cap Value (MCV) strategies, with additional replacement names introduced as necessary. Current EIC exclusions are tied to specific language from several U.N. guidelines, as detailed below:

PROTECTING HUMAN RIGHTS

human rights abuse, impacts on local communities, freedom of expression, repressive regimes...

"The responsibility to protect human rights is a global standard . . . for all business enterprises wherever they operate."²

"Companies must take proactive steps to understand how existing and proposed activities may affect human rights."¹

"Business enterprises should... avoid infringing upon the human rights of others and should address adverse . . . impacts"²

Excluded EIC Holdings: Chevron, Exxon Mobil

PROMOTING LABOR RIGHTS

discrimination, supply chain management, anti-union practices, MacBride Principles compliance...

"companies need to be aware of potential human rights issues both upstream and downstream."³

"Employees who experience discrimination at work are denied opportunities and have their basic human rights infringed."³

"Put in place non-discriminatory policies and procedures with respect to trade union organization."³

"Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining."³

Excluded EIC Holdings: Apple, Chevron, Exxon Mobil, Ralph Lauren, Target, Tesco, Wal-Mart Stores

DEFENDING ENVIRONMENTAL RIGHTS

biodiversity and land use, toxic emissions, impacts of products and services...

"many people, especially the poor, depend directly on ecosystems for their livelihoods . . . and their cultural heritage."⁴

"Businesses should undertake initiatives to promote greater environmental responsibility"³

Excluded EIC Holdings: Chevron, Exxon Mobil

ENCOURAGING TRANSPARENT GOVERNANCE

bribery and fraud, Foreign Corrupt Practices Act and Office of Foreign Asset Control penalties...

"Businesses should work against corruption in all its forms, including extortion and bribery."³

Excluded EIC Holdings: None

FURTHERING NONVIOLENCE

distribution of military equipment, firearms and weapons manufacturing...

"Some of the worst human rights abuses involving businesses occur amid conflict"²

"prohibit international transfers . . . in circumstances in which such arms are likely to be used to commit serious human rights violations."⁵

Excluded EIC Holdings: None

Holdings in EIC Human Rights Value are subject to change. The inclusion or exclusion of securities is not intended as recommendation, nor is there any implication about past or future performance or profitability. Because the social screens applied to an SRI account/portfolio may exclude securities of certain issuers, industries and sectors for non-financial reasons, EIC may forgo some available market opportunities. As a result, the investment returns may be affected. In addition, since EIC will generally sell the securities of a company that no longer meets the social screens, its portfolio turnover rate may be higher than it would otherwise and securities may be sold when not otherwise beneficial to do so. EIC votes proxies for SRI account/portfolio securities consistent with social and environmental guidelines but will not support proposals we determine to be potentially harmful to shareholder value.

1. Ruggie, John. *Protect, Respect and Remedy: a Framework for Business and Human Rights*. Rep. no. A/HRC/17/31. United Nations General Assembly: Human Rights Council, 07 Apr. 2008. Web. 19 Feb. 2015
2. Ruggie, John. *Guiding Principles on Business and Human Rights: Implementing the United Nations "Protect, Respect and Remedy" Framework*. Rep. no. A/HRC/17/31. United Nations General Assembly: Human Rights Council, 21 Mar. 2011. Web. 19 Feb. 2015
3. United Nations. *Global Compact. The Ten Principles*. N.p., n.d. Web. 19 Feb. 2015.
4. Rio 20 Outcome Document: "The Future We Want" Jun 2012. Council on Foreign Relations. 19 Feb. 2015.
5. Frey, Barbara. *Prevention of Human Rights Violations Committed with Small Arms and Light Weapons*. Rep. no. A/HRC/Sub.1/58/27/Add.1*. United Nations General Assembly: Human Rights Council, 08 Aug. 2006. Web. 19 Feb. 2015



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Our investment objective for EIC Human Rights Value is to apply the investment principles we have used since 1986 to deliver a full market-cycle return pattern similar to that experienced in unrestricted accounts. The mission objective for EIC Human Rights Value is to avoid investments in companies involved in abuses of fundamental human rights, including environmental and labor rights, in keeping with U.N. conventions and guidelines. By combining our long-established investment process with robust SRI/ESG screens, we seek to reconcile and better balance the conflict between investors' fiduciary and social responsibilities.

INVESTMENT PROCESS

- ❖ **Valuation** - Economic value is determined using a valuation approach developed and used by EIC since 1986. The approach determines value based on a reasonable expectation of earning a premium above inflation over a targeted holding horizon as a 100% business owner.
- ❖ **Growth** - Companies that cannot grow typically prove to be poor investments, regardless of price. EIC developed graphical value-trap avoidance tools in 1995 to reduce investment mistakes from owning structurally or managerially unhealthy businesses that cannot grow.
- ❖ **Quality** - Earnings are examined to reduce mistakes of capitalizing unsustainable earnings.

SRI / ESG PROCESS

- ❖ Negative screening excludes: companies implicated in environmental, human rights or labor rights controversies or with non-compliant supply chain management, firearms and weapons manufacturers and companies with equity ties to or that have sold military equipment in countries under U.S. trade sanctions.
- ❖ Positive screening allows for inclusion of companies implicated in environmental or governance controversies when strong governance policies are in place to decrease impacts.

PORTFOLIO CONSTRUCTION

- ❖ Holdings: largely drawn from EIC All-Cap Value (ACV), Large-Cap Value (LCV) and Mid-Cap Value (MCV) strategies
- ❖ Replacement names introduced as necessary
- ❖ Diversification: 30-40 holdings
- ❖ Position Weights: 2-4% at inception
- ❖ Industry Weights: typically < 20%

SELL DISCIPLINE

- ❖ **Valuation** - if stock reaches full economic value
- ❖ **Growth** - fundamental deterioration
- ❖ **Quality** - significant decline in financial strength, balance sheet stress, major change in business that renders historical data invalid
- ❖ **Diversification** - trim if > 6% of portfolio
- ❖ **New Opportunities** - when available
- ❖ **SRI** - if irreparably violates SRI/ESG criteria

PORTFOLIO STATISTICS (AS OF 3/31/16)

Statistics		Top Ten Holdings			Sector Allocation	
			%	Sector		%
Average # holdings	30-40	Johnson & Johnson	3.9	Healthcare	Financials	28.2
Current # holdings	34	Cognizant Tech Solns.	3.6	Technology	Technology	23.2
Median Mkt. Cap.	\$33.6B	Whole Foods Market Inc	3.2	Consumer Staples	Healthcare	12.1
Median P/E Ratio	14.5x	MSC Industrial Direct	3.2	Industrials	Industrials	8.5
Median P/BV Ratio	2.8x	T Rowe Price Group	3.1	Financials	Consumer Staples	5.4
Median Debt/Capital	32.7%	Alphabet Class C	3.1	Technology	Cons Discretionary	4.8
Median ROE	14.1%	Taiwan Semiconductor	3.0	Technology	Utilities	2.9
Active Share	86.5%	Exelon Corp	2.9	Utilities	Telecommunications	0.0
ACV/LCV as % SRI	67.0%/67.0%	Honda Motor Co	2.8	Cons Discretionary	Materials	0.0
MCV as % SRI	31.9%	PNC Financial Corp	2.8	Financials	Energy	0.0
Cap. Exposure	Lg/Md/Sm	Total	31.6		Cash	14.9
Current	65%/28%/7%					100.0

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