

EIC PROTESTANT VALUE



"... in the investment of money, make a conscious effort to invest in institutions, companies, corporations or funds whose practices are consistent with the goals outlined in the Social Principles."

-The Book of Discipline¹

Fiduciary arguments often undermine full implementation of social guidelines, minimizing exclusions through high involvement thresholds. Using research inputs from MSCI, Inc., EIC has established negative and positive screens to eliminate holdings that we believe violate the **spirit** of guidelines laid out by various Protestant governing bodies. 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 Protestant guidelines, as detailed below:

NURTURING FAMILIES AND CHILDREN

abortion, adult entertainment, alcohol, gambling and tobacco

"investment in companies that manufacture or market alcoholic beverages, tobacco products, gaming products and/or facilities, pornographic, lewd, or obscene materials is prohibited."²

"preclude securities of companies . . . who profit materially from: the wholesale manufacturing and/or distribution of alcohol, tobacco or pornography; direct involvement in gaming activities; providing abortion services; or producing and/or distributing forms of entertainment that are in direct conflict with the Christian message"³

Excluded EIC Holdings: None

PROMOTING HUMAN RIGHTS

human rights abuse, labor rights abuse and poor governance

"constantly try to shape the decisions of enterprises in which they invest . . . to provide decent working conditions, wages, and other provisions conducive to the dignity and well-being of employees"⁴

"encourage companies to honor and promote human rights and the dignity of human life."⁵

Excluded EIC Holdings: Chevron, Exxon Mobil, Wal-Mart Stores

FURTHERING NONVIOLENCE

firearms and weapons manufacturing

"We believe . . . the militarization of society must be challenged and stopped; that the manufacture, sale, and deployment of armaments must be reduced and controlled; and that . . . nuclear weapons be condemned."¹

"look for ways to foster in the economy generally and in individual companies a reduction from the present level of war production"⁴

Excluded EIC Holdings: None

STEWARDSHIP OF THE NATURAL WORLD

environmental protection

"Water, air, soil, minerals, energy resources, plants, animal life, and space are to be valued and conserved"¹

"avoid investing in companies . . . that have an adverse impact on the environment and companies that have not satisfactorily demonstrated a commitment to improve the adverse environmental consequences of its policies."⁶

Excluded EIC Holdings: Chevron

Holdings in EIC Protestant 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. *The Book of Discipline of the United Methodist Church, 2008: The Book of Resolutions, 2008.* Nashville, Tenn.: United Methodist Pub. House, 2008. Computer file.
2. "Investment Policies." *Evangelical Council for Financial Accountability.* ecfa.org. n.d. Web. 3 Feb. 2015.
3. "Investment Policy and Guidelines." *The Baptist Foundation of Oklahoma.* bfok.org. n.d. Web. 3 Feb. 2015.
4. "Corporate Social Responsibility." *Presbyterian General Assembly.* presbyterianmission.org. Aug. 2003. Web. 3 Feb. 2015.
5. "Investment Ethics." *The United Methodist Church.* umc.org. 2012. Web. 3 Feb. 2015.
6. "Portfolio Screening Guidelines." *General Board of Pension and Health Benefits.* gbophb.org. 2014. Web. 3 Feb. 2015.



EIC PROTESTANT VALUE

"... in the investment of money, make a conscious effort to invest in institutions, companies, corporations or funds whose practices are consistent with the goals outlined in the Social Principles."

-The Book of Discipline

Our investment objective for EIC Protestant 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. Our mission objective is to conscientiously follow the investment guidelines laid out by various Protestant governing bodies as consistent with Christian values. By combining our long-established investment process with robust SRI/ESG screens, we seek to reconcile and better balance the conflict between Protestant 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 in the abortion, adult entertainment, alcohol, gambling, tobacco and weapons-manufacturing industries.
- ❖ Positive screening allows for advocacy in the areas of environmental protection, human rights, labor rights and corporate governance.
- ❖ Corporate policies and progress are evaluated based on controversy history and ESG management performance relative to peers.

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)

<u>Statistics</u>		<u>Top Ten Holdings</u>	<u>%</u>	<u>Sector</u>	<u>Sector Allocation</u>	<u>%</u>
Average # holdings	30-40	Johnson & Johnson	3.9	Healthcare	Financials	28.5
Current # holdings	36	Cognizant Tech Solns.	3.6	Technology	Technology	26.6
Median Mkt. Cap.	\$33.6B	Apple Computer Inc	3.3	Technology	Healthcare	12.2
Median P/E Ratio	14.5x	MSC Industrial Inc	3.2	Industrials	Industrials	8.6
Median P/BV Ratio	2.8x	Whole Foods Market Inc	3.2	Consumer Staples	Cons Discretionary	6.8
Median Debt/Capital	30.1%	T Rowe Price Group Inc	3.1	Financials	Consumer Staples	5.5
Median ROE	14.1%	Alphabet Class C	3.1	Technology	Utilities	2.9
Active Share	86.4%	Taiwan Semiconductor	3.1	Technology	Energy	0.0
ACV/LCV as % SRI	63.1/63.1%	Exelon Corp	2.9	Utilities	Telecommunications	0.0
MCV as % SRI	30.1%	Honda Motor Co	2.9	Cons Discretionary	Materials	0.0
Cap. Exposure	Lg/Md/Sm	Total	32.3		Cash	<u>8.9</u>
Current	65%/29%/6%					100.0

Holdings in EIC Protestant Value are subject to change. The inclusion or exclusion of securities is not intended as a recommendation, nor is there any implication about past or future performance or profitability. The securities identified do not represent all of the securities purchased, sold or recommended for client accounts. Statistics are calculated from representative Protestant Value accounts using Morningstar DirectSM. Active Share is the proportion of portfolio holdings that differ from those of the Russell 1000[®] Value Index, our benchmark portfolio. Sector weights may not equal 100% because of rounding conventions. 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 account/portfolio 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 it may be selling securities when it 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. This is a presentation of EIC. The presentation may contain confidential information and unauthorized use, disclosure, copying, dissemination or redistribution is strictly prohibited.

3007 Piedmont Road NE, Atlanta, Georgia 30305
 Phone 404/239-0111 ♦ Facsimile 404/239-0280
www.eicatlanta.com

EIC DOC# 16050905