



4643 S Ulster Street | Suite 1040 | Denver, CO 80237 303.694.1900 | innovestinc.com

A wide-angle photograph of the Denver skyline at sunset. The city's skyscrapers are silhouetted against a sky filled with orange and yellow clouds. In the foreground, there is a large, leafy tree on the right, a body of water (likely Lake City Park) in the middle ground, and a small building with a red roof on the left.

Investment Implications of Divestment – A Practical Perspective

August 18, 2016

Wendy Dominguez, MBA | Principal, President

ABOUT INNOVEST

Independent and objective

- Consulting approach to nearly \$15 billion in assets
- 40 employees, including 12 principals
- Fee-only
- No conflicts of interest
- No proprietary products

Client-centered and team-based

- 5.8:1 client-to-service professional ratio
- Consultants average 20 years of experience
- More than 230 clients

Research-focused

- Robust independent research
- “Best-of-breed” focus based on your unique goals and objectives
- Custom investment solutions

Institutional best practices

- Complete disclosure: fees, performance, managers
- Process-oriented
- Custom solutions
- Sophisticated reporting

Forbes The Top 100 Wealth Managers

Innovest ranked #13 among national wealth managers for 2015.

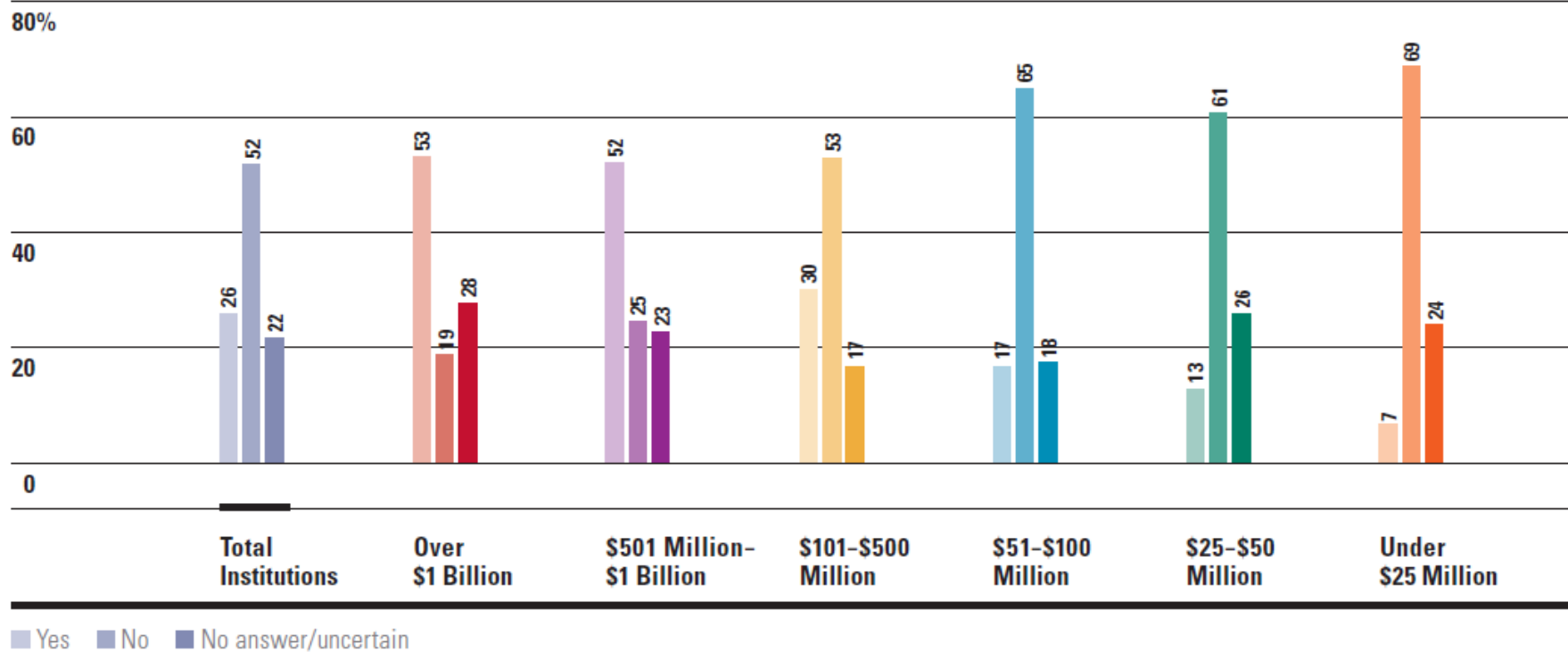


Named among the Best Places to Work in the nation by *Pensions & Investments*.

RESPONSIBLE INVESTING IS A “HOT TOPIC”

Figure 3.18 Have Met with Third-Party Stakeholders Regarding Responsible Investing Considerations

numbers in percent (%)

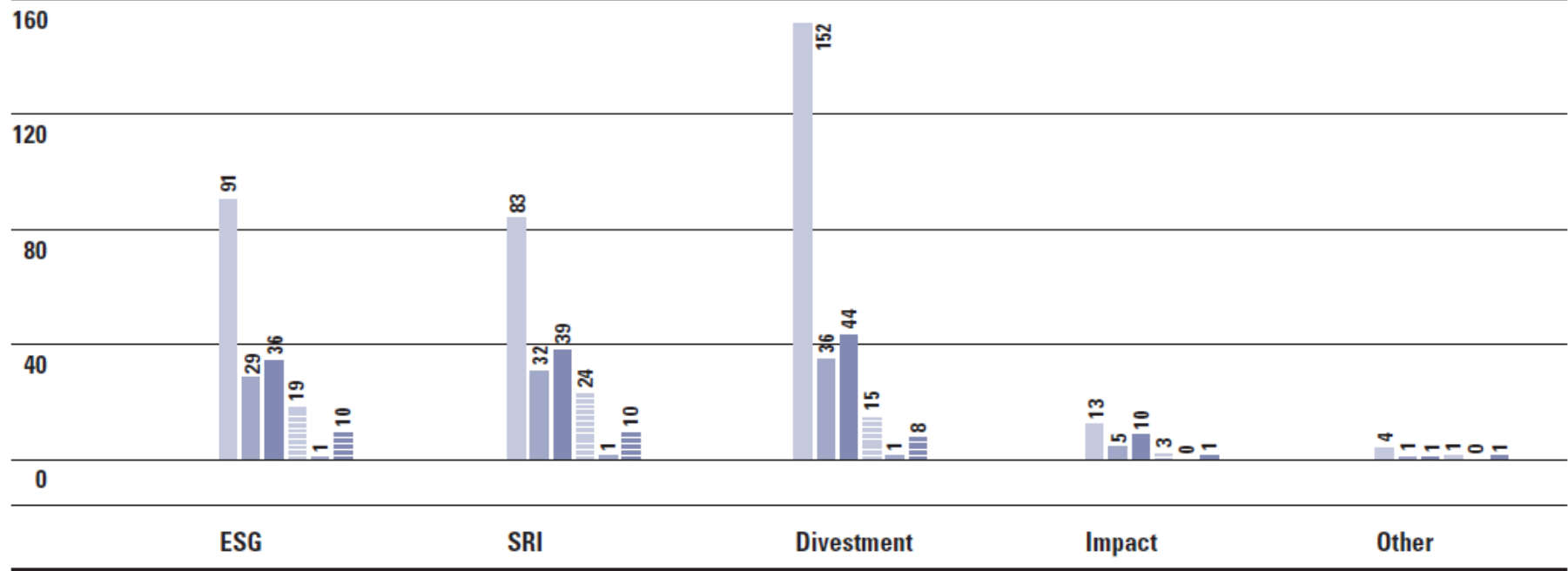


Source: 2014 NACUBO-Commonfund Study of Endowments

INTEREST CENTERS AROUND DIVESTMENT

Figure 3.19 Topics Discussed* at Meetings with Third-Party Stakeholders

number of responses



■ Students ■ Alumni ■ Employees ■ Donors ■ Grantmakers ■ Other Stakeholders

*multiple responses allowed

Source: 2014 NACUBO-Commonfund Study of Endowments

DIVESTMENT IMPLICATIONS

1. Policy
2. Investment Selection
3. Investment Monitoring
4. Fiduciary Implications

1. POLICY PERSPECTIVE

Decisions

- Will the divestment include pooled products like Limited Partnerships and Mutual Funds or just separate account managers?
- Most pooled products can't accommodate the divestment mandate.
- If just separate accounts, is that really a divestment strategy?
- If all assets, are you driving costs up on the portfolio because you can't utilize pooled products?
- How do you define and formalize divestment?

CASE STUDY #1: SUBJECTIVITY OF APPLICATION

- How much revenue from divested areas is too much? 0%? 10%? 20%?
- How do you judge? How will managers judge? What if you don't agree? How do you settle?

		Revenue Threshold Percentages																		
		Equity					Fixed Income			Real Assets			Hedged Equity			Multi-Strategy				Range
		Manager A	Manager B	Manager C	Manager D	Manager E	Manager A	Manager B	Manager C	Manager A	Manager B	Manager C	Manager A	Manager B	Manager C	Manager A	Manager B	Manager C	Manager D	
Issues	USCCB Guidelines																			
Abortion	0%	0%	0%	CB	0%	0%	0%	Not Screened	0%	Not Screened	Not Screened	Not Screened	0%	0%	0%	0%	0%	0%	Create internal restricted list of securities	0%
Adult Entertainment	*	10%	0%	10%	0%	15%	10%		0%				10%	10%	10%	N/S	5%	5%		N/S-15%
Alcohol	N/S	N/S	5%	CB	0%	15%	10%		20%				N/S	20%	N/S	N/S	10%	20%		N/S-20%
Child Labor	N/S**	N/S	N/S	CB	N/S	N/S	N/S		N/S				N/S	N/S	N/S	N/S	N/S	N/S		N/S
Cluster Mines	N/S	0%	0%	CB	N/S	0%	N/S		N/S				0%	N/S	0%	N/S	N/S	N/S		N/S-0%
Contraception	0% for manufacture; 20% for sale	0%	0%	CB	0%	0%	N/S		20%				0%	0%	0%	0%	0%	0%		N/S-20%
For-Profit Healthcare	N/S***	N/S	N/S	CB	N/S	N/S	N/S		N/S				N/S	N/S	N/S	N/S	N/S	N/S		N/S
Environment	N/S	N/S	N/S	CB	N/S	N/S	N/S		0%				N/S	N/S	N/S	N/S	N/S	N/S		N/S-0%
Gambling	N/S	N/S	5%	CB	0%	20%	10%		20%				N/S	N/S	N/S	10%	10%	20%		N/S-20%
Landmines	0%	0%	0%	CB	N/S	0%	N/S		N/S				0%	N/S	0%	N/S	N/S	0%		N/S-0%
Pharmaceuticals	N/S****	N/S	N/S	CB	N/S	N/S	10%		N/S				N/S	N/S	N/S	N/S	N/S	N/S		N/S-10%
Nuclear Power	N/S	N/S	10%	CB	0%	N/S	N/S		N/S				N/S	N/S	N/S	N/S	N/S	N/S		N/S-10%
Nuclear Weapons	*****	10%	0%	CB	0%	20%	10%		0%				10%	2%	10%	10%	5%	5%		N/S-20%
Conventional Weapons	*****	10%	5%	CB	N/S	20%	N/S		20%				10%	2%	10%	N/S	N/S	N/S		N/S-20%
Embryonic Stem Cell Research	0%	0%	0%	CB	0%	0%	0%		0%				0%	0%	0%	N/S	0%	0%		NS-0%
Sudan	N/S*****	N/S	N/S	CB	N/S	0%	0%		N/S				N/S	N/S	N/S	N/S	N/S	N/S		N/S-0%
Tobacco	N/S	10%	5%	CB	0%	15%	10%		20%				N/S	10%	10%	10%	5%	5%		N/S-20%

"N/S" represents No Screen

"CB" represents Christian Brothers proprietary scoring

* Significant portion of revenue

** Will promote shareholder resolutions

*** Will promote shareholder resolutions

**** Will encourage participation in access programs and support resolutions

***** Will promote shareholder resolutions

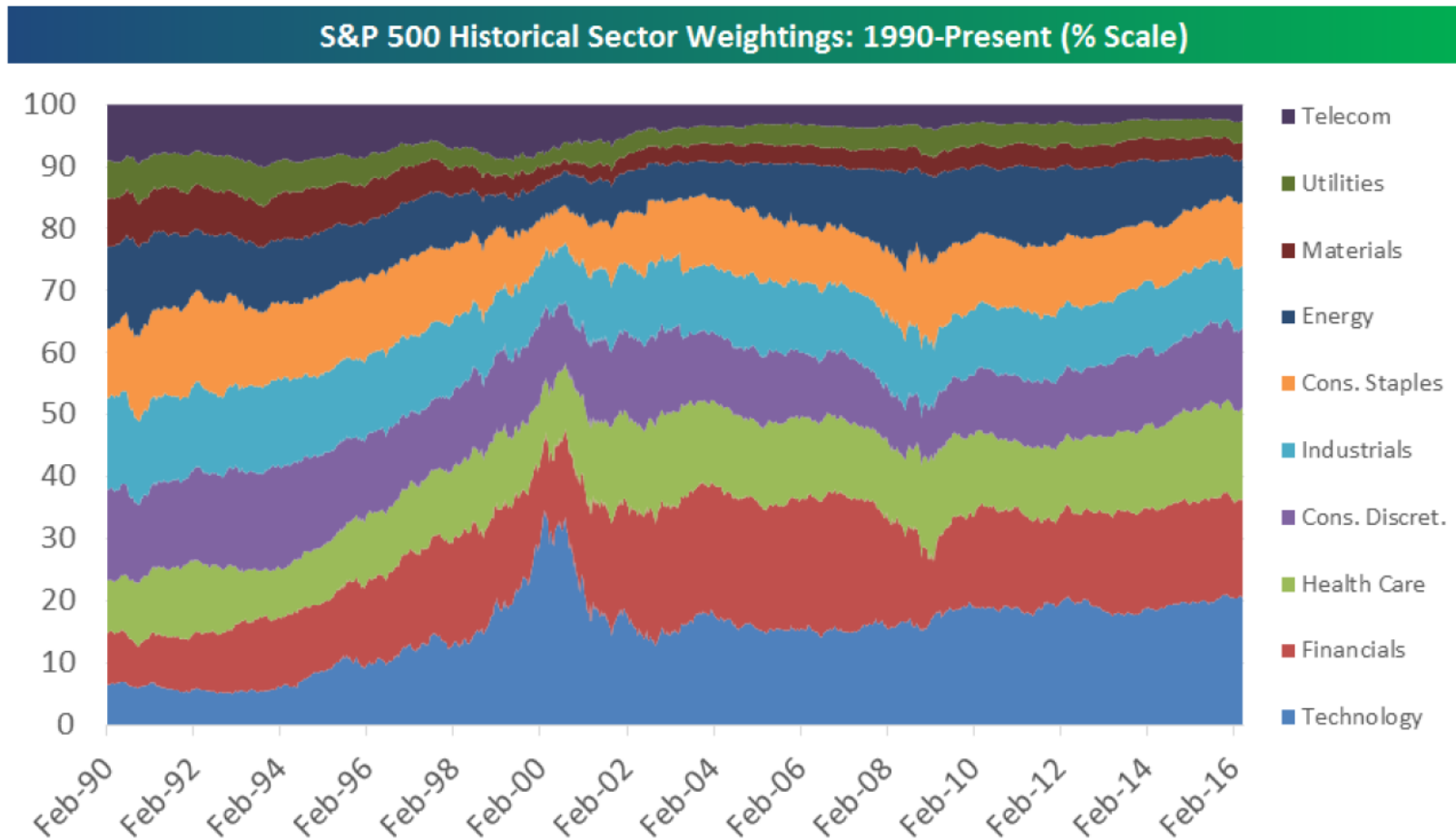
***** Primarily engaged in production

2. INVESTMENT SELECTION PROCESS PERSPECTIVE

Issues

- Managers that are willing to run a portfolio divested of a market segment are going to be more challenging to identify.
- Managers don't want to have specialized portfolios because they are more difficult to manage.
- Managers must report all accounts as part of their advertised composite performance numbers.
- Having accounts with limitations creates dispersion.
- May be relegated to shops that are looking for capital vs. more successful shops that can be more select with the dollars they want to take.
- Screening can be expensive.
 - We were told by a manager of a large community foundation they were no longer going to offer a screened portfolio. If the client wanted to pay \$100,000 for the screening, they would continue to screen the product for social screens, but if not, they weren't going to do it any longer.

S&P 500 SECTOR WEIGHTINGS: THE IMPORTANCE/SIZE OF A SECTOR IN THE ECONOMY EBBS AND FLOWS



Source: Bespoke Investment Group. April 2016.

3. INVESTMENT MONITORING PERSPECTIVE

- Fiduciaries are required to monitor vendors.
- If your policy requires divestment, you must monitor what is being done.
- What happens if the portfolio underperforms because of divestment?
- Screening Services are available for an additional fee.
- The challenge is then, what do you do with it?

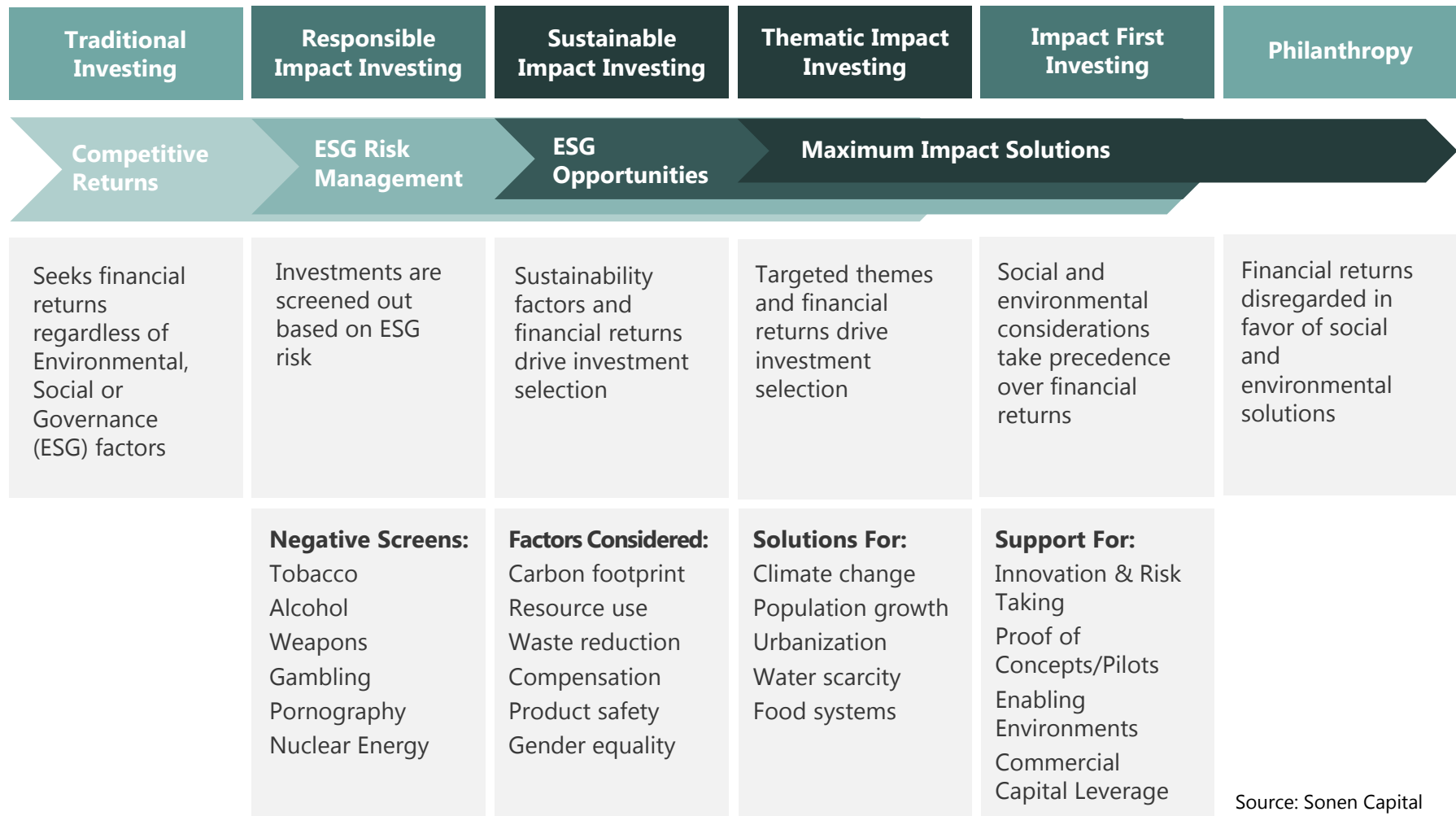
CASE STUDY #2: VIOLATIONS OF PROHIBITED INVESTMENTS

Manager	Company Name	Abortion	Contraception	Manufacturing of Contraception	Embryonic Stem Cell Research	Landmines	Footnotes for Involvement
Manager A	ASTELLAS PHARMA INC				TRUE		Ocata Therapeutics, acquired in March 2016, uses research on embryonic stem cells for its program to develop new drugs in the field of regenerative medicine. (Ocata Therapeutics 2014 Form 10K)
Manager B	East Japan Railway Co	TRUE					The company owns/operates medical facilities (such as JR Tokyo General Hospital) providing women's health services including obstetrics and/or gynecological services. It is likely that these facilities provide abortion services within the parameters of the current applicable legal restrictions. (2015 Annual Report; JR Tokyo General Hospital website)
Manager C	Banmedica SA	TRUE					The company owns hospitals and clinics in Chile, Columbia and Peru. Some of the health care facilities, such as Clinica del Country in Bogota, Columbia, have gynecology and obstetrics departments which likely perform abortion services in accordance with the local legal restrictions. (Company website; Clinica del Country website)
Manager C	FDC Ltd	TRUE					The company manufactures UNDO, a mifepristone-based drug that can be used for abortion. Additionally, the company produces a Misoprostol-based pharmaceutical product (Misolast) which, in higher doses, can be used as an abortifacient. (Mims website; DrugsUpdate website)
Manager C	Genomma Lab Intl SAB		TRUE				The company produces numerous over-the-counter products, including condoms. (Company website)
Manager C	Scinopharm Taiwan Ltd		TRUE				The company produces Levonorgestrel, an emergency contraceptive pill. (Company website; National Institute of Health website)
Manager C	Torrent Pharmaceuticals Ltd	TRUE					The company produces the Herwont KIT, a combination of 100 mg of Mifepristone and 200 mcg of Misoprostol. (Drugs Update website; Kelo website)

4. FIDUCIARY IMPLICATIONS

The balance between traditional investing and philanthropy

- When it comes to using managers with divestment mandates, how tolerant will the board overseeing the portfolio be when those managers' products underperform traditional performance benchmarks (i.e., non-divestment benchmarks)?



Source: Sonen Capital

RESPONSIBLE INVESTING PRACTICES

Figure 3.15 Currently Required/Permitted Responsible Investing Practices

<i>numbers in percent (%)</i>	Total Institutions	Over \$1 Billion	\$501 Million– \$1 Billion	\$101–\$500 Million	\$51–\$100 Million	\$25–\$50 Million	Under \$25 Million
	832	91	77	262	168	125	109
Seek to include investments ranking high on ESG criteria							
<i>Yes</i>	14	15	18	14	12	12	13
<i>No</i>	70	57	69	74	74	66	72
<i>Uncertain</i>	16	28	13	12	14	22	15
Exclude or screen out investments inconsistent with institution's mission							
<i>Yes</i>	25	23	18	26	20	29	31
<i>No</i>	61	51	68	63	70	55	57
<i>Uncertain</i>	14	26	14	11	10	16	12
Allocate portion of endowment to investments furthering institution's mission							
<i>Yes</i>	15	17	18	13	14	14	17
<i>No</i>	68	57	66	72	72	64	68
<i>Uncertain</i>	17	26	16	15	14	22	15

Source: 2014 NACUBO-Commonfund Study of Endowments

RESPONSIBLE INVESTING PRACTICES, CONTINUED

- 2014 NACUBO-Commonfund Study of Endowments– 832 institutions responded, 77 institutions with assets between \$501 million and \$1 billion
 - Environmental, Social Governance (ESG) positive screens
 - **23%** seek to include screens on the portfolio
 - Exclude investments (negative screens)
 - **23%** exclude investments inconsistent with institution's mission
 - **4%** are considering changing investment policy to include ESG integration

CASE STUDY #3: SAMPLE ESG INVESTING TABLE

Investment Manager Socially Responsible Investing Evaluation				
	Percentage of Portfolio	PRI* Signatory	Formally Integrated ESG Process	ESG is a Consideration
International Growth Equity	3.81%			Y
Domestic Small / Mid Value Equity	4.01%			Y
Domestic Large Cap Core Equity	10.55%			
Hedge Fund of Funds	0.17%			
Domestic Core Fixed Income	11.25%			Y
Domestic Large Cap Growth Equity	10.64%			Y
Opportunistic Fixed Income	1.53%			
Floating Rate Corporate Loans	8.19%			Y
International Value Equity	3.72%			
Broad Commodity	2.30%	Y	Y	Y
Hedge Fund of Funds	7.88%			
Opportunistic Fixed Income	1.54%	Y	Y	Y
Domestic Small Cap Value Equity	4.09%			
Hedge Fund of Funds	5.22%			Y
Broad Commodity	2.30%	Y	Y	Y
Private Equity	2.80%			
Private Equity	1.57%			
Private Equity	2.73%			
Private Equity	2.31%			
Hedge Fund of Funds	0.04%			
International Value Equity	3.70%			Y
High Yield Fixed Income	3.19%			
Hedge Fund of Funds	1.55%			
Emerging Market Equity	4.20%			Y
Illiquid Credit	0.64%			
Illiquid Credit	0.09%			
% of Investable Portfolio		6.14%	6.14%	51.94%

*PRI: Principles of Responsible Investing

4. FIDUCIARY PERSPECTIVE

- CALPERS and tobacco divestment:
 - “Specifically, excluding tobacco had cost an estimated \$2 billion to \$3 billion, Wilshire found, a considerably larger portfolio impact than CalPERS’ other divested assets, such as Iran, Sudan and certain firearm-related companies.”
 - Reuters, April 2016

QUESTIONS?

Thank you!

Wendy Dominguez
Principal, President
Innovest Portfolio Solutions
wdominguez@innovestinc.com

WENDY J. DOMINGUEZ, MBA | PRINCIPAL, PRESIDENT

Wendy is the President and co-founder of Innovest Portfolio Solutions LLC. She has more than 24 years of experience in the investment consulting profession. Her clients include some of the largest public and private sector retirement plans in the Rocky Mountain Region, as well as many large Foundations, Endowments and wealthy families. She is a member of Innovest's Investment Committee, which makes decisions on investment related research and due diligence. Additionally, she leads Innovest's Retirement Plan Practice Group, a specialized team that identifies best practices and implements process improvements to maximize efficiencies for our retirement plan clients. In 2014, Wendy was named one of the 20 Most Influential Women in Benefit Advising in the nation by *Employee Benefit Adviser*. Finally, Wendy has been designated as one of the *Financial Times*' Top 100 Women Financial Advisors.

Wendy is responsible for contract negotiation between many of our clients and their vendors. Through her efforts she has saved clients millions of dollars. Wendy's views on investment cost control have been published in *Pensions & Investments*, and the National Association of Government Defined Contribution Administrators (NAGDCA). She was a key contributor to the Innovest White Paper on Employee Directed Defined Contribution Retirement Plans, as well as The Case for Vendor Consolidation. She has also authored a number of articles on fiduciary related matters which have been published in several national publications. Additionally, Wendy has been a speaker at the Center for State and Local Government Excellence, a national conference in Washington, DC, the Colorado Public Pension Conference and the Rocky Mountain Defined Benefit Plan Conference, among others.

Wendy has a BS in Finance and Economics (Magna Cum Laude) and an MBA from the University of Denver. Wendy was appointed by Governor Hickenlooper to serve on the Metropolitan State University Board of Trustees in 2016. She is an Advisory Board member for ACE Scholarships and is a member of the Finance Council of the Archdiocese of Denver. She previously served as the Chairman of the Board of ENDOW (Educating on the Nature and Dignity of Women), an international Catholic women's organization. Wendy is also a member of The 100 Club of Denver, which provides financial support to the families of fallen police and firefighters. Wendy is married to a Denver Police SWAT officer and is the mother of 13-year-old twins. Wendy volunteers in her children's classroom and has coached YMCA Little Kicker's soccer.