

# **A Different Way to Invest . . .**



**. . . Responsibly**

**By Chuck Carlson, CFA  
CEO, Horizon Investment Services LLC**

# A Different Way to Invest Responsibly

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The phrase “socially responsible investing” has rarely been synonymous with the phrase “market-beating returns” in the minds of many investors.

But in my opinion, it doesn’t have to be.

I think one problem that hurts SRI managers is that they may do too much. Indeed, most SRI managers:

- 1) vet stocks for their SRI characteristics; *and*
- 2) choose the best investments from the pool of SRI stocks.

In effect, these managers are required to be experts in two vastly different areas. Vetting companies based on their SRI characteristics is virtually a full-time job. Companies have sprawling operations these days touching many different industries. And the scope of SRI investing has broadened to include faith-based investing and other SRI offshoots. It is little wonder that managers who devote their limited resources to *both* vetting stocks for SRI qualities *and* choosing what they believe are the best investments are possibly over-extending themselves and potentially dooming their strategies to mediocre returns.

In our opinion, a different and better approach is to let firms do what they do best. That is our philosophy at Horizon Investment Services when it comes to socially responsible investing — let experts on vetting companies do the “social screening” for Environmental, Social, and Governance (ESG), or faith-based

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**Horizon leaves the “social screening” to the experts in the field**

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**Our rules-based “enhanced Index” investment process is transparent**

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characteristics; and let experts on stock screening and selection focus on the investment side of the equation.

In each of our SRI and faith-based strategies, Horizon does not do vetting of stocks based on SRI/BRI characteristics. We leave that to the experts at MSCI and ISS Governance. We focus on the investment side by taking SRI/BRI indexes or universes created by MSCI and ISS Governance and “enhancing” them using Horizon’s proprietary Quadrix® quantitative stock-rating system.

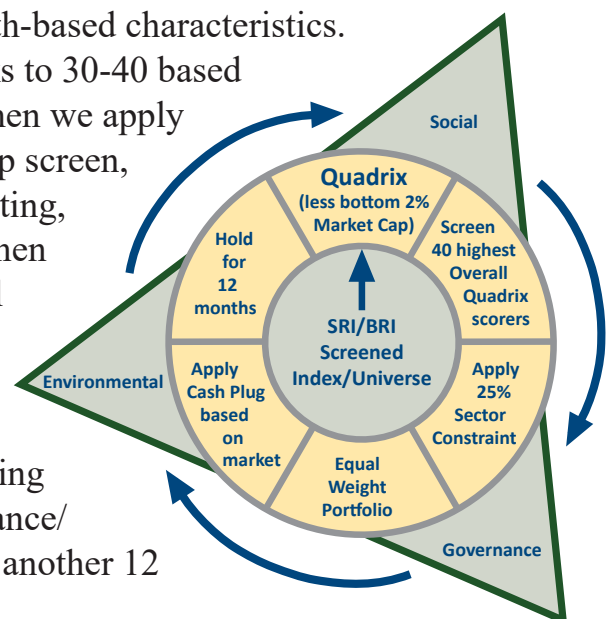
Quadrix ranks more than 3,000 stocks based on more than 90 different variables for each stock. A stock’s Quadrix Overall score is determined by the individual scores of seven categories — Financial Strength, Value, Quality, Momentum, Earnings Estimates, Performance, and Reversion. Quadrix scores are percentile rankings (0-100). For example, a stock with an Overall score of 97 means that the stock scores better than 97% of all stocks in the Quadrix universe.

We believe a numerical ranking system like Quadrix can provide a strong investment overlay that can be applied to an SRI/BRI index to enhance the index performance.

Our rules-based “enhanced index” investment process is transparent. We start with an index or universe of stocks that an expert has already vetted for their Environmental, Social, and Governance (ESG) or faith-based characteristics.

We winnow down those stocks to 30-40 based on Overall Quadrix scores.

Then we apply certain constraints (market-cap screen, sector constraint, equal weighting, and tactical allocation plug when appropriate) to create the final portfolio. We typically maintain that portfolio for 12 months, and then re-evaluate the portfolio by running the methodology again, rebalance/reconstitute and then hold for another 12 months.



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**Horizon  
offers four  
investment  
strategies  
in the SRI  
space**

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Currently, Horizon is offering four investment strategies in the Socially or Biblically Responsible Investing space:

**Enhanced Socially Responsible strategy** — an all-equity enhanced index strategy that applies quantitative overlays to the MSCI KLD 400 Social Index.

**Enhanced SRI Fossil Fuel Free strategy** — an all-equity enhanced index strategy that applies quantitative overlays to the MSCI KLD 400 Social Index, with additional screens that are designed to eliminate companies with exposure to fossil fuels.

**Enhanced Christian Values strategy** — an all-equity enhanced index strategy that applies quantitative overlays to the MSCI USA Catholic Values Index.

**Enhanced BRI strategy** — an all-equity enhanced index strategy that applies quantitative overlays to a universe of stocks already screened and vetted for BRI principles by ISS Governance.

For more information about Horizon, Quadrix, or any of our strategies please visit our web site at [www.HorizonInvestment.com](http://www.HorizonInvestment.com) or call us at **800-711-7969**.

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Horizon Investment Services claims compliance with the Global Investment Performance Standards (GIPS®). To receive Horizon's GIPS-compliant performance information contact Tom Hathoot at 1-219-852-3215, or write Horizon Investment Services, 7412 Calumet Ave., Hammond, IN 46324, or email [thathoot@horizoninvestment.com](mailto:thathoot@horizoninvestment.com).

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An investment in this strategy involves the risk of loss. Investment return and principal value will fluctuate so that the investment, when redeemed, may be worth more or less than the original investment.

Past performance is no guarantee of future results. No formula or other device being offered can, in and of itself, be used to determine which securities to buy or sell.

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Fact Sheets with Zephyr  
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Investment Services'  
Socially Responsible  
Investment strategies,  
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