

### **PART III – Integrating ‘Critical Concerns’ into the Investment Process**

*We explain why an organization’s ‘Critical Concerns’ should be one of the building blocks when forming a comprehensive organizational investment strategy. We encourage investors to undertake a process to identify what matters most to their organization – ‘Critical Concerns’ – and invest with that intent.*

**W**ith a little historical perspective and a more defined view of the ‘values-based’ investing landscape, here is what we encourage institutional investors to do today.

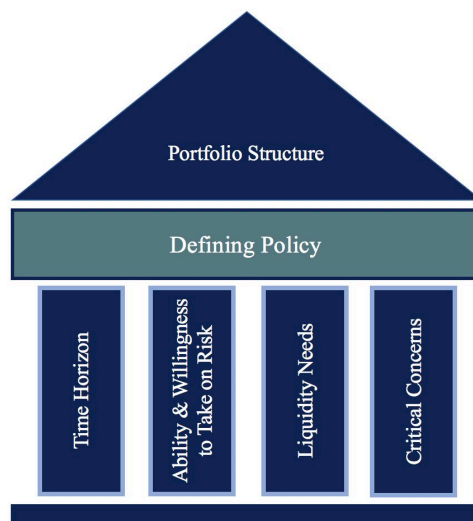
In Part I of this series we discussed ‘Critical Concerns’ and suggested that:

*Organizational leaders establish a process that helps their organization define what it cares about most (‘Critical Concerns’) and creates alignment around implementation and measurement of these priorities.*

Here we will build upon this important step and discuss how organizations can incorporate their ‘Critical Concerns’ into the institution’s investment strategy.

When forming an investment strategy, it is common for institutions to have consensus on key factors such as risk tolerance, liquidity needs and investment time horizon. **We believe ‘Critical Concerns’ should be an additional building block to be considered when forming a comprehensive organizational investment strategy.**

#### *Process To Create Investment Strategy*



*Source IOR*

We believe the organization’s ‘Critical Concerns’ should receive equal consideration. Specifically, the investing organization should have a formal process that creates consensus on if and how the institution’s ‘Critical Concerns’ should be incorporated into the investment strategy.

Just as the setting of risk tolerance, liquidity parameters, and time horizon help remove ambiguity of what is in the best interest of the organization, so does creating consensus on how the ‘Critical Concerns’ will be integrated.

Once this consensus is established, the organization now has a clear and effective basis to evaluate if/whether SRI, ESG Integration and/or Impact Investing is the most effective way to represent the institution’s ‘Critical Concerns.’ More specifically, the investment office now has a basis to effectively evaluate alternatives and a framework to rationalize its choices.

By establishing ‘Critical Concerns,’ an organization is taking ownership of its priorities. We support that each organization should view values-based investing through its own lens; therefore, we propose steering away from automatically accepting the definitions and interpretations of others, including the many self-defined ‘ESG’ funds and strategies that might have predetermined factors that may or may not fit organizational values.

We encourage the institution to share its ‘Critical Concerns’ with its investment managers and then collaborate with these partners to determine the most effective means for implementation.

We acknowledge values-based investing is not simple and that the process requires ongoing involvement from the institution; we provide our method for how an institution may approach its implementation in **Exhibit A** below.

### Exhibit A - The IOR Approach to Implementing an Investment Strategy

We have found that once alignment around ‘Critical Concerns’ is achieved, implementation and consistency in how an investment strategy is executed upon is that much easier.

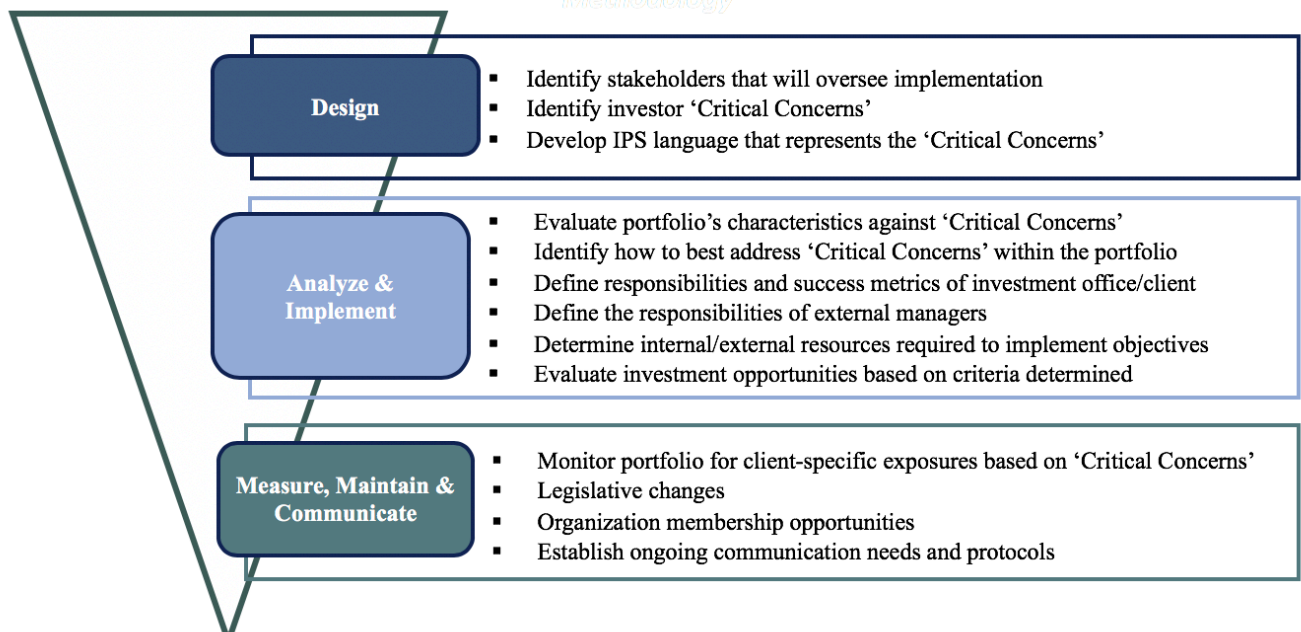
We offer this process which will:

- Lead organizations to articulate what they care about.
- Design and implement collaboratively, an investment portfolio and process reflecting values.
- Allow institutions to view values-based investing through a lens that reflects their values.

One design for how an investment office can structure implementation is as follows:

#### *How To Approach Values-Based Investing*

##### *Methodology*



## In Closing

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We encourage investors to undertake their own process to identify what matters most to the organization – clarify ‘Critical Concerns’ – and to invest with that intent.

We acknowledge finding alignment on what an organization cares most about is complex and a dynamic process that requires ongoing involvement and support from stakeholders.

Developing a process of implementation and measurement creates clarity and alignment for an organization cross functionally.

Once unity and consensus around what an organization cares most about is identified, imagine how simple investment decision making can be.

At the end of the day, whatever an organization decides to subscribe to should be done with intent and in alignment for what it cares most about – its ‘Critical Concerns.’

*Contributed by:*  
*Anthony Waskiewicz*  
*Francie Heller*  
*Jennifer Michaud*

*Investment Office Recourses LLC (IOR), is a registered investment adviser based in St. Louis. IOR provides specialized resource support to institutional investors.*

*W: <https://www.iorllc.com> | E: [info@iorllc.com](mailto:info@iorllc.com) | P: 1.833.467.7658*

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