

THE ALLIANCE OF



TRUSTWORTHY
BUSINESS EXPERTS

Building Trust Into Your Investment Decisions

By Barbara Brooks Kimmel



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My name is Barbara Brooks Kimmel. I am the co-founder and Executive Director of Trust Across America-Trust Around the World (TAA-TAW), and the President of Next Decade, Inc., an award-winning communications firm that has been in business for over 20 years. The mission of TAA-TAW is simply to help organizations build trust. To that end, over the past five years, we have built the largest global “go to” web resource on organizational trust at www.trustacrossamerica.com.

Defining Trust Based Investing

What is keeping individual investors out of the stock market and on the sidelines? It is not valuation, liquidity, or profits, but simply, a lack of trust. This “lost decade” has been characterized by high profile accounting scandals, out of touch compensation practices and a leveraged lending orgy leading to a global financial meltdown. Is it any wonder that trust in the financial markets has all but disappeared?

In 2008 *The Economist* published a briefing paper sponsored by Cisco, called “The Role of Trust in Business Collaboration” http://graphics.eiu.com/upload/cisco_trust.pdf, stating that tens of millions of dollars had been spent evaluating corporate governance- but a definition of corporate trust continued to elude us. What if companies could be identified that exhibited high levels of trustworthiness?

Over four years ago, and with the assistance of dozens of academic, financial, corporate and consulting experts, TAA-TAW began building a model incorporating quantifiable metrics that play a role in trustworthy business behavior. We named it the FACTS® Framework, an acronym that pulls five indicators of trustworthy business into one quantitative model. The indicators are Financial stability,

Accounting conservativeness, Corporate governance, Transparency, and Sustainability. Over 200 data points are incorporated into this unbiased evaluation of public companies. Gone are the silos, replaced by a holistic view of trustworthy business practices, and a realistic opportunity for Trust Based Investing.

What's different about Trust Based Investing?

US stocks markets are fundamentally attractive. Corporate earnings are becoming healthier and continue to beat analyst's expectations. Most of the leading economic indicators point to a stronger economy and that in turn may create increasing optimism for the stock market. We are seeing leadership in the sectors associated with the strongest markets- technology, industrials, and retail. But still, the money remains parked in low yielding money market accounts.

If we can deliver a “beyond reproach” strategy to investors that combines the key indicators of corporate trustworthiness, Trust Based Investing could become the solution the public has been waiting for.

Why Trust Matters in Investing

Trust matters in every transaction, with every person, every day. Why should Trust Based Investing be any different? Companies that embrace trust as a central theme in doing business reap the following rewards:

Improved Profitability

Building a trustworthy business will improve a company's profitability and organizational sustainability.

A growing body of evidence shows increasing correlation between trustworthiness and superior financial performance. Over the past decade, a series of qualitative and quantitative studies have built a strong case for senior business leaders to place building trust among stakeholders high on their priority

list. While none of these studies are perfect, over the next decade their results will be increasingly difficult to ignore.

In a Harvard Business School working paper from July 2013 called *The Impact of Corporate Sustainability on Organizational Processes and Performance*, Robert G. Eccles, Ioannis Ioannou, and George Serafeim provide evidence that High Sustainability companies (those integrating both environmental and social issues) significantly outperform their counterparts over the long-term, both in terms of stock market as well as accounting performance.

Lower Employee Turnover

According to *Fortune's* "100 Best Companies to Work For", based on Great Place to Work Employee Surveys, best companies experience as much as 50% less turnover and Great Workplaces perform more than 2X better than the general market (Source: Russell Investment Group)

Lower Cost of Capital & Less Risk

Forbes and GMI Ratings have produced the "Most Trustworthy Companies" list for the past six years. They examine over 8,000 firms traded on U.S. stock exchanges using forensic accounting measures, a more limited definition of trustworthy companies than Trust Across America's FACTS® Framework but still somewhat revealing. The conclusions they draw are:

"... the cost of capital of the most trustworthy companies is lower ..."

"... outperform their peers over the long run ..."

"... their risk of negative events is minimized ..."

From Deutsche Bank:

100% concurrence on Lower Cost of Capital ("... academic studies agree that companies with high ratings for CSR (corporate social responsibility) and ESG (environment, social responsibility, governance) factors have a lower cost of capital in terms of debt (loans and bonds) and equity.")

Superior Market Performance

85% concurrence on Greater Performance on Accounting –Based Standards ("... studies reveal these types of company's consistently outperform their rivals on accounting-based criteria.")

Higher Return on Equity & Return on Assets

From Global Alliance for Banking on Values, which compared *values-based* and *sustainable* banks to their *big-bank* rivals and found:

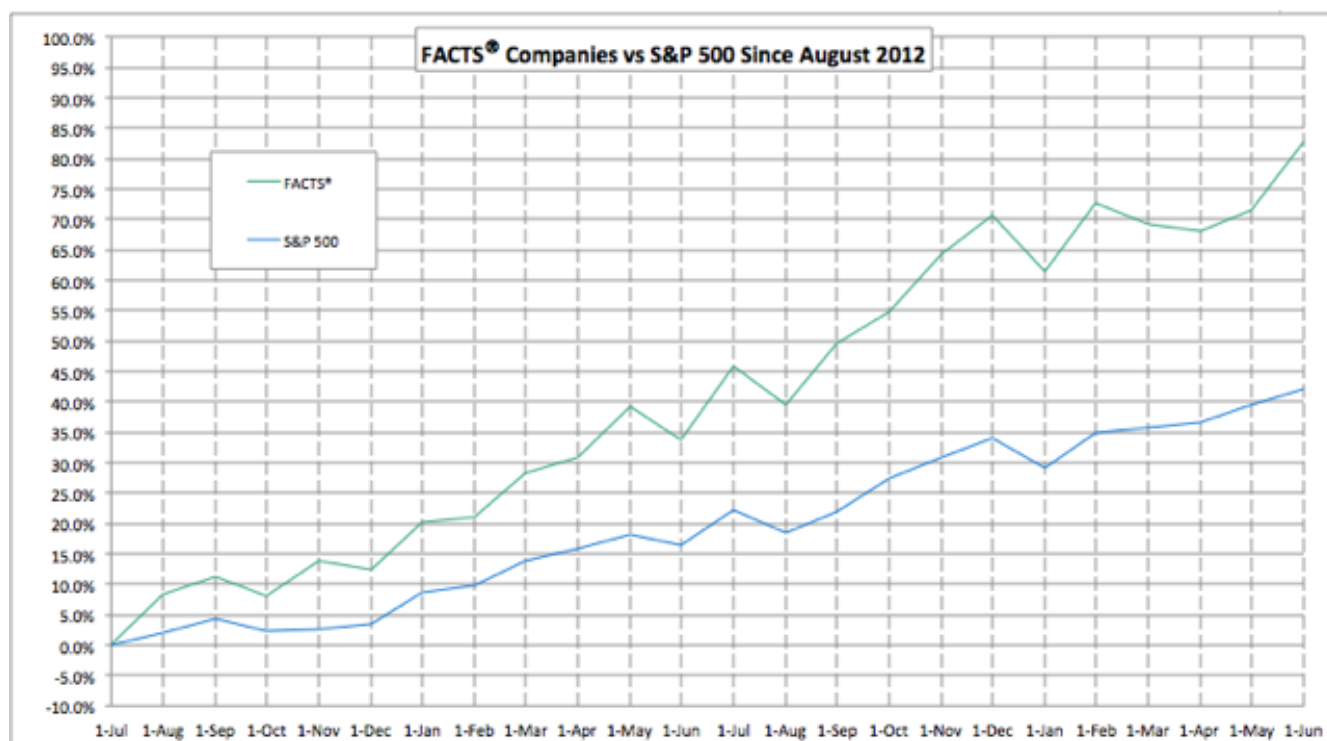
7% higher Return on Equity for values-based banks (7.1% ROE compared to 6.6% for *big banks*).

51% higher Return On Assets for *sustainable* banks (0.50% average ROA for *sustainable* banks compared to *big bank* earning 0.33%)

These studies are bolstered by analyses from dozens of other respected sources including the American Association of Individual Investors, the Dutch University of Maastricht, Erasmus University, and *Harvard Business Review*.

How Do Trustworthy Companies Fare Over Time?

TAA-TAW has been tracking the performance of America's most trustworthy public companies, and the results are nothing short of staggering. These companies have produced an 82.9% return vs. the S&P's 42.2% since August 2012. These results are based upon a monthly re-balanced list of selected companies rather than an actual portfolio.



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America's Most Trustworthy Companies

Since 2010, TAA-TAW has also been conducting an annual review to identify The Most Trustworthy Public Companies in America. Over 2000 of America's largest public companies are screened through our custom FIDES™ software using our FACTS® Framework. No internal assessments or surveys are completed and companies do not know they are being analyzed. Trust Across America™ can identify the "best of the best", understanding that no company is perfect.

The investment performance of the top three companies identified in 2013 are shown below:

Manpower Inc (MAN):

This staffing firm received the distinction of being named the Most Trustworthy Public Company 2013.



We're not the only ones who believe this company leads with trust. Their accolades and awards can be accessed here.

Hormel Foods (HRL):

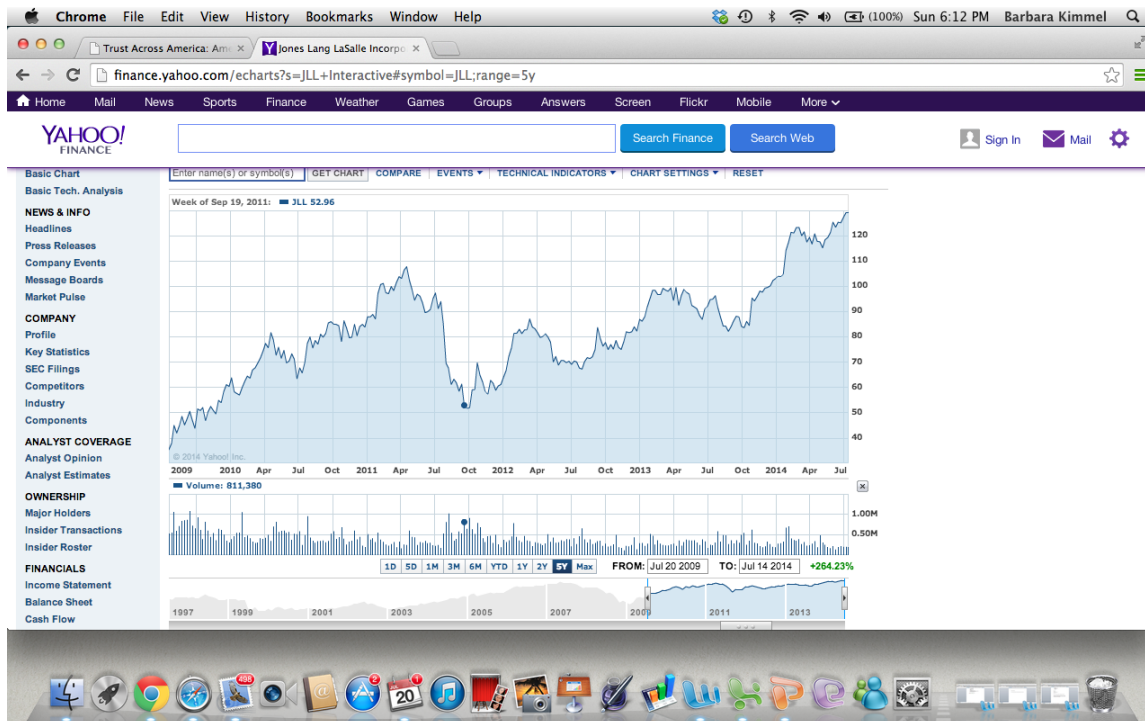
This food manufacturer received the distinction of being ranked #2 on TAA's Most Trustworthy Public Company 2013.



Hormel's accolades and awards can be accessed here including "Responsible CEO of the Year" and "Best Companies for Leaders."

Jones Lang LaSalle (JLL):

A commercial real estate services company who received the distinction of being ranked #3 on TAA's Most Trustworthy Public Company 2013 designation.

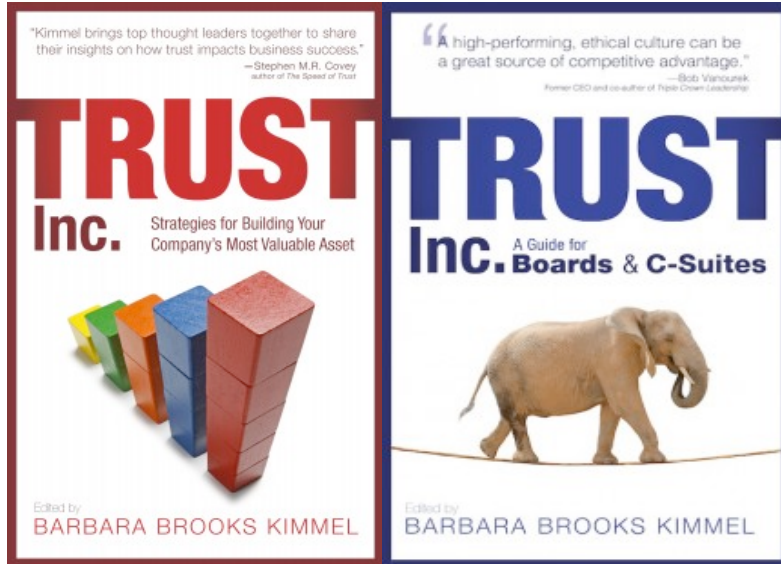


Company accolades can be accessed here including awards for global ethics, diversity and inclusion, environmental responsibility and management.

The Benefits of Trust Based Investing

Trust Based Investing works, but not just for the obvious reason of producing outstanding returns to investors. By investing in trustworthy companies, a virtuous cycle is created. As money flows into the hands of these companies, other companies will want to follow suit. They will want to become more trustworthy. Why? Because trust works!

Barbara Brooks Kimmel is the Executive Director of Trust Across America-Trust Around the World whose mission is to help organizations build trust. She is also the editor of the award winning TRUST INC. book series. In 2012 Barbara was named "One of 25 Women Changing the World" by Good Business International.



If you would like to communicate directly with Barbara, drop her a note at Barbara@trustacrossamerica.com

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