

GENERATING ALPHA POTENTIAL WITH INSPIRE IMPACT SCORE | Special Report

SUMMARY

A recent study by Shane Enete, CFA at the **Inspire-Biola Research Institute For Biblically Responsible Investing (BRI)**, has shown that applying the Inspire Impact Score methodology to portfolio security selection can actually generate alpha in a portfolio when compared to the broader, non-Inspire Impact Score screened benchmark. This finding adds new data to the debate of what effect values-based screening (Socially Responsible, Biblically Responsible, ESG, etc) has on the performance of a portfolio.

At Inspire we believe that good values and good returns are not mutually exclusive, and the findings from this study validate that belief. While screening a portfolio does not guarantee alpha generation, this study clearly shows that using the Inspire Impact Score methodology does have the potential to provide outperformance when compared to a non-screened benchmark.

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Inspire-Biola Research Institute For Biblically Responsible Investing



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ABOUT THE STUDY

For the purposes of this study, a traditional attribution analysis method was applied to the Inspire Small/Mid Cap Impact Equal Weight Index ("Index") over a five year period. The study compared the contribution to overall returns from three variables: 1) Equal weight composition; 2) Sector bias; and, 3) Inspire Impact Score security selection methodology. These three variables were then isolated and compared against the benchmark to determine the effect each individual variable had on overall performance.

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"The results of the study found that the Inspire Impact Score methodology of security selection resulted in an annualized 4.7% outperformance compared to the non-screened benchmark."

The remaining variables of sector weighting and equal weight composition had negligible effect on the overall performance. (See Fig. 1) These findings pave the way for additional research into the underlying reasons as to why companies with higher Inspire Impact Scores provide the potential to outperform companies with lower Inspire Impact Scores, and the **Inspire-Biola Research Institute for BRI** is up to the task, but what is clear is that companies that are a blessing to their customers, communities, workplace and the world have the potential to outperform their peers and that investors who are seeking to create profit and impact do not necessarily need to resign themselves to substandard returns -- indeed, it is possible that they could even experience above average returns by including Inspire Impact Score screening in their investment strategy.

Fig. 1 shows the comparative effects on performance of three variables in the study, relative to the un-screened benchmark (50% S&P 400 and 50% S&P 600)

Inspire Small/Mid Cap Impact Equal Weight Index (1/12 - 1/17)	Performance Effect (annualized)
Sector Weighting	-.05%
Equal Weight Composition	-.01%
Inspire Impact Score security selection	4.7%