



Life, liberty and the pursuit of returns: There's an ETF for that

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Like many Americans, Perth Tolle has watched the recent protests in Hong Kong with dismay. Tolle, who divided her childhood between Texas and mainland China, spent a year in Hong Kong after college. That year, she made friends with a Chinese woman, a relationship that helped Tolle realize just how lucky she'd been to spend so much of her childhood in a free country.

“Because of the one-child policy, she did not exist on paper, she had no birth certificate, no social benefits, no registration to receive official documents,” Tolle said. “That made me realize that governance and policies matter. This policy changed the culture, society, and economy of an entire generation in China. It made me realize freedom has an impact.”

Back in the U.S. and settling into a job as a financial adviser at Fidelity Investments, Tolle wanted to do something about her ideas. Even as she learned about investing in “emerging markets,” she chafed at sending dollars to China.

“Eventually the idea came to me: I want to invest in free countries,” she said. “It’s freedom that allows the emerging markets of yesterday to become the developed markets of today.”

Now, nearly two decades later, Tolle’s passion is an investable idea. In May, a company she founded, Life + Liberty Indexes, launched an exchange-traded fund to allow anyone access to its strategy: “Human and economic freedom metrics as primary factors in the investment selection process.”

At a time when human freedoms seem to be on the retreat, including protests in Hong Kong and Russia, among them and societies are becoming less open, investing in the Freedom 100 Emerging Markets ETF may be the ultimate example of trying to do well financially by doing good.

Like all ETFs, this one **FRDM, -0.45%** tracks an index. It’s called Life + Liberty Freedom 100 Emerging Markets Index, and Tolle developed it using data from a few sources, including the Fraser Institute, the Cato Institute and the Germany-based Friedrich Naumann Foundation for Freedom. Its benchmark is the MSCI Emerging Markets Index.

Right now, the index has by far the most exposure to Taiwan, which makes up nearly one-quarter of its holdings. Securities in South Korea, Poland and Chile are right behind, with about 15%-

17% exposure each. According to the Life + Liberty strategy, it's how free a country is, rather than its market size, that determines how much of the index it makes up.

Tolle is pragmatic when asked how she'd define success for the ETF. So far it's gathered enough assets to be "past the risk of closure." But it will take more inflows to become profitable – about \$50 million is the usual industry benchmark, and the fund currently has about \$12 million. And in its short lifespan of about three months, **it's gained about 3%**, according to Alpha Architect, the fund issuer.

Life + Liberty is also similar to other ETFs in that it "rebalances" every so often — in this case, once a year — based on what's going on in the world.

"Things can change both very slowly and very quickly," Tolle said. "The top four have always been the top four. The bottom holdings change faster." The index methodology has one important rule: if a country's freedom ranking declines too quickly, it will be removed from the index. In the index's short life, that's already happened once: in 2018 Turkey's freedom measurements took such a steep nose-dive in the aftermath of a failed coup that the country was booted.

"We believe in the long run there is alpha," Tolle said — that is, better performance, adjusted for risk — "because there's more sustainable growth, more resilience. [Freer countries] use their human and economic capital more efficiently."

Tanja Porčnik is a senior fellow at the Fraser Institute and, in Tolle's words, the "brains behind the data" that feeds the index. Fraser and Cato have jointly produced an annual "Economic Freedom of the World" report since the late 1990s.

With so much history, it's possible to evaluate how earlier assessments of freedom have played out over time, Porčnik pointed out. "It's striking how accurate they were in their assessment of these relationships — what leads to what, what kind of impact freedom has on the well-being of the people — per capita income but also child mortality, literacy rates, and so on. Our index confirms what was said decades ago," she said.

Recent **research from the Global Impact Investing Network**, a global industry group of sorts for the impact investing world, shows that as of 2018, there were over 1,300 organizations around the world with about \$502 billion in impact investment assets, which they define as investments "made with the intention to generate positive, measurable social and environmental impact alongside a financial return."

That may sound intuitive, but it actually represents an evolution from the contours of socially conscious investing a few decades ago, GIIN CEO Amit Bouri notes. Early efforts at responsible investing were mostly a bit like the Hippocratic Oath, Bouri told MarketWatch: Do no harm. Think of stakeholders trying to get investment managers to avoid certain types of companies, like tobacco or guns.

In contrast, Bouri said, "an impact investor would be looking at, how do I positively invest in things that contribute to a sustainable impact in the future?" Of course, in impact investing, perhaps more than in most corners of the financial markets, the details become exceedingly devilish. "The question to be asked is, what is the positive and measurable impact they want to achieve?" Bouri said.

Eric Hsueh, director and investment manager of research at Cornerstone Capital Group, an impact investing advisory, cautioned that an investor buying into FRDM needs to have “eyes wide open” because it is so different than most investment vehicles, primarily because it avoids China exposure.

In addition, Hsueh pointed out, information technology and financials make up close to half of the Freedom 100, compared to about 35% of the benchmark. “That could make it more volatile,” he said. Still, as far as an investment play that promotes human rights, it’s “one of the only options. If you prioritize life and liberty and countries that are free I think this is the perfect vehicle to get exposure.”

Tolle argues that FRDM is a strong investment option in and of itself – a diversified, broad emerging-market play – as well as a moral choice. “You should be proud that your investment dollars are not going to authoritarian regimes or places that don’t support human rights. You’re supporting the protection of individual rights.”

“Freedom is on the decline,” Tolle said several times in an interview with MarketWatch.

But she believes it’s important to look beyond the past few years for some context. Over several decades, “we have been on the march towards more freedom. There are ebbs and flows, but the long term trajectory is towards a freer world. Think of the stock market, longer term trends versus short term volatility. I think China will eventually adopt the Hong Kong model and be on the right side of history, and I look forward to the day they are included in the index.”