



# Executive Summary: Becoming A Catholic Fiduciary

*Fiduciaries can integrate faith and finance to achieve long-term investment objectives while promoting social justice and supporting their institution's mission.*

Overseeing the prudent management of another's assets is an enormous responsibility. But for Catholic organizations, the role of a fiduciary offers potential rewards that transcend year-end returns and investment results. Our experience shows that the integration of seemingly unrelated concepts—merging faith and finance—offers an excellent opportunity to achieve fiscal goals while living our beliefs in today's modern and fast-paced world. We believe that integrating the core values of one's faith with the practical realities of institutional investing is an enlightened approach to fiduciary responsibilities, and one we are called to by the Church.

Faith-based stewardship and conceptually similar practices are being adopted by legions of religious and secular institutions around the world. Consider that many mainstream institutional investors, such as California Public Employees' Retirement System (CalPERS), Hermes Asset Management and Goldman Sachs, as well as many Catholic institutions, have realized the advantages of integrating environmental, social and corporate governance considerations into portfolio management and investing decisions to varying degrees. While some fiduciaries focus narrowly on next quarter's portfolio returns, a Catholic fiduciary takes a broader view, seeking to achieve societal as well as financial returns.

## SRI & Portfolio Return

Since the early 1970s, there have been hundreds of studies by academics and investment professionals analyzing the performance of socially responsible investing (SRI). In general, these studies have sought to answer two questions: Do SRI portfolios generally produce lower returns than non-SRI portfolios? Do SRI restrictions create uncompensated risk in a portfolio? The consensus view is SRI, as an isolated and independent variable, does not produce a statistically significant impact on portfolio performance over time.

CBIS' 25-year experience confirms this consensus view. For example, our CUIT Core Equity Fund, an SRI S&P 500 Index tracking fund, returned 11.20% (net of fees) on average over the approximate 12-year period from its inception in January 1995 through December 31, 2007. This compares with the S&P 500's 11.27% return over the same period.

## Foundational Concepts for Catholic Economic Life

The Church gives shape to the relationship between its larger mission and economic life through five primary concepts and their definitions. It is clear that these five concepts speak to values shared by individuals of conscience the world over. Integrating these concepts into investment decisions is central to the broader role and definition of a Catholic approach to fiduciary duty.



### COMMON GOOD

The sum total of social conditions that allow people, either as groups or as individuals, to reach their fulfillment more fully and more easily. Societies serve their members through a commitment to the common good, and the common good can only be attained through the collective effort of all.

### THE PURPOSE OF MATERIAL GOODS

Human beings need material goods to survive, grow, communicate and participate in community life. Owners of capital must use their resources not only to enrich themselves, but also to serve the common good. Businesses should be organized around the principle of creating benefits for society at large.

### THE PARTICIPATION IN SOCIETY

Individuals promote the common good through participation in the social, political, economic and cultural life of the community to which they belong.

### DIGNITY OF WORK

Work serves a dual purpose: to create products and services of value; to provide workers with the opportunity to achieve their human potential through creative labor. Business leaders must take into account not only the profit motive, but also the well-being of employees.

### SOLIDARITY

Human beings are inherently social and interdependent on others. Each of us is indebted to society as a whole for our ability to seek our own potential. Nothing we achieve is possible without the knowledge, cultural legacy and material possessions that humanity has produced. This principle commits each person to work for the common good and to serve, rather than exploit, other people.

## The Catholic Approach to Fiduciary Duty

The Catholic Church has a rich history as a supporter and participant in a market-based economy. Yet the Church also recognizes the potential for abuse, exploitation and violation of human rights and the environment when economic life is lived separately from spiritual life. The Church has numerous writings illustrating ways to unify the demands of faith and finance. But even in the secular world, the fiduciary role has evolved in recent decades along with the rapid growth of the socially responsible investment movement. Today, expanded fiduciary responsibilities are confirmed and supported by a legal framework that affirms that ethical considerations can and should play an important role in portfolio stewardship.

Traditionally, most fiduciaries have been focused strictly on the narrowest interpretation of their role—managing assets and measuring success strictly by quantifying investment results. Certainly investment returns are of paramount importance, but adopting such a limited interpretation of fiduciary responsibilities has impeded many organizations from more fully integrating faith and finance. At the same time, however, a more holistic interpretation that includes consideration of nonfinancial criteria in the investment process does not change the reality facing Catholic institutions. In order to carry out their missions these institutions need to protect and grow their assets.

**“ALL ECONOMIC LIFE SHOULD BE SHAPED BY MORAL PRINCIPLES. ECONOMIC CHOICES AND INSTITUTIONS MUST BE JUDGED BY HOW THEY PROTECT OR UNDERMINE THE LIFE AND DIGNITY OF THE HUMAN PERSON, SUPPORT THE FAMILY AND SERVE THE COMMON GOOD.”**

*United States Conference of Catholic Bishops,  
A Catholic Framework for Economic Life*

Fortunately, taking into account Catholic ethical principles in the investment process is no impediment whatsoever to achieving optimal risk-adjusted returns. In fact, there is a compelling argument that companies who hold themselves to higher societal and environmental standards are better managed and offer better long-term prospects for investors.

Most institutional portfolios include diversified holdings across a broad cross-section of the economy. Long-term portfolio returns, therefore, correlate more closely to the strength of the economy as a whole as opposed to the performance of any single investment. A company that increases profits by imposing costs on society does not serve shareholder interests over the longer term. Irresponsible business practices simply shift those costs from one area of the portfolio to another. Therefore, the scope of fiduciary oversight of institutional portfolios should hold managements accountable for responsible actions. That's exactly what Catholic fiduciaries strive to do.

A fiduciary that neglects to take the broader view does a disservice by exposing the investor he or she is representing to excessive and

# Developing an SRI Policy

The Church offers fiduciaries considerable flexibility in how they apply Catholic social teaching to the creation of an SRI policy. Fortunately, there is plenty of help available, and those responsible for developing and implementing an SRI policy can draw upon the decades-long experience of other Catholic investors, along with guidelines developed by the U.S. Conference of Catholic Bishops. The following outlines the key steps to creating a customized SRI policy.



## STEP 1: DETERMINE CORE VALUES

Core values are those that are most critical to the organization's mission. These values do not change over time. They are central to the identity of the institution.

## STEP 2: PRIORITIZE ISSUES

Considerations should be given to how core values relate to individual companies, where opportunities exist to speak these values and what resources are available to address these issues.

## STEP 3: DEFINE CONDUCT

What types of corporate conduct raise concerns for the organization? Organizations must distinguish between conduct that may be amenable to change and conduct that so violates core values the institution would prefer not to profit from it.

## STEP 4: DETERMINE RESOURCES

Since internal resources are often limited, it is important to note that there are a number of practical alternatives available to organizations. These include vendors who can implement screens and proxy voting, as well as SRI managers—including CBIS—that offer bundled services that allow even small organizations to implement an effective SRI policy.

## STEP 5: COMMUNICATE CLEARLY

Asset managers need to receive specific instructions for policy compliance, including regular communication so that once policies are put in place investors can monitor implementation.

## STEP 6: REVIEW AND REVISE

SRI is an ongoing process of reflection and action. All organizations implementing new SRI policies should periodically review and revise covenants to ensure they are up-to-date.



unnecessary risk. History has demonstrated that consideration of some nonfinancial criteria in the investment process is not only admirable from an ethical perspective, it is also a powerful tool for portfolio management.

## Techniques of Ethical Stewardship

Catholic organizations utilize institutional investing as a means to protect and generate the resources that will enable them to fulfill their missions. But adopting the practices of a Catholic fiduciary also opens the door to the additional benefits of ethical stewardship. While progressing toward fiscal goals and objectives, an institution can simultaneously help forward Catholic teachings and guiding principles. There are four primary techniques for implementing the ethical stewardship of institutional assets.

### 1. Stock Screens (also known as Principled Purchasing)

For the Catholic institutional investor, the decision to purchase an ownership interest in a particular company should include an evaluation of whether it is appropriate for a Church organization to make money from such activities. An effective screening policy requires the judicious balancing of the general teachings of our faith with our legal obligation as fiduciaries to prudently invest capital in a diversi-

**“ALL THINGS HUMAN ARE OUR CONCERN. WE SHARE WITH THE WHOLE OF THE HUMAN RACE A COMMON NATURE, A COMMON LIFE, WITH ALL ITS GIFTS AND PROBLEMS.”**

*Pope Paul VI, Ecclesiam Suam*

fied portfolio. There are no definitive rules for screening criteria, but there are ample guidelines available that can help fiduciaries create an appropriate set of parameters.

### 2. Shareholder Advocacy (also known as Active Ownership)

In addition to screening out companies, Catholic fiduciaries leverage their role as owners to take proactive measures to foster positive change in the way a company does business. This is the primary Catholic contribution to ethical stewardship—shareholder advocacy or active ownership.

The goal of active ownership is to use our influence as shareholders so that the company conducts its business in ways that reflect our values. Catholic social teaching reminds us that the corporation has

two purposes: to enhance the wealth of its shareholders and to contribute to the well-being of workers, consumers and society.

Through active participation in corporate governance we exercise not only our rights as owners of a corporation, but also our responsibilities as moral agents in economic life. We engage company executives in discussions about the ethical implications of their activities, and we encourage them to balance short-term financial gains with the resultant longer-term impact on society as a whole. As fiduciaries, this strategy allows us to act as good stewards and to respond to the call of the Church to integrate our faith with our daily activities.

**“OUR FAITH CALLS US TO WORK FOR JUSTICE; TO SERVE THOSE IN NEED; TO PURSUE PEACE; AND TO DEFEND THE LIFE, DIGNITY, AND RIGHTS OF ALL OUR BROTHERS AND SISTERS. THIS IS THE CALL OF JESUS, THE CHALLENGE OF THE PROPHETS, AND THE LIVING TRADITION OF THE CHURCH.”**

*United States Conference of Catholic Bishops,  
A Century of Social Teaching*

### 3. Community Investing

The third primary technique for ethical stewardship is community investing. This involves directing resources to communities that have a difficult time accessing capital through mainstream financial institutions. Community investment programs vary and can include supporting low-income housing developments, supplying capital to fair-trade businesses in developing nations, funding educational and vocational training programs for the economically disadvantaged, and numerous other sponsorships of economic development.

### 4. Internal Corporate Responsibility

Tenets of Catholic social teaching should not only impact the external relationships of an institution but should inform internal decisions as well. From environmental stewardship to vendor standards, Catholic institutions can integrate their values into every aspect of their daily operations.

### Understanding the Big Picture

The Catholic Faith compels us to engage and promote the universal values that promote the dignity of the human being. But the Church can also help guide our understanding of the relationship between human life and our free-market system. A Catholic fiduciary realizes that integrating Catholic teachings into the investment process is not contrary to his or her responsibility; it fulfills that responsibility. This faith-based stewardship is an enlightened approach, supported by strong business fundamentals and evidenced by countless real-world examples. It's an opportunity to participate in the market economy and bring the mission of the Church to the world of investing. And it's a means to live our faith.

## About CBIS

- Founded in 1981, CBIS is the leading Catholic institutional investment management firm.
- CBIS manages approximately \$4 billion for more than 1,000 Catholic institutions worldwide.
- We work exclusively on behalf of Catholic organizations including dioceses, religious institutes, health care systems, educational institutions and other entities.
- Our unique focus allows us to anticipate, understand and offer investment strategies that meet the specific financial needs of Catholic organizations.
- Our SRI Program combines Principled Purchasing (stock screens) and Active Ownership (shareholder advocacy) in order to encourage companies to become better, more responsible corporate citizens.
- We contribute a percentage of our profits to support the educational and social ministry of the Church.



**CBIS**

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