

# Catholic Investment Screening

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Screening should be a part of a multi-strategy approach to investment management for Catholic institutions.



Catholic  
Responsible  
Investing

## OVERVIEW

Catholic Responsible Investing<sup>SM</sup> (CRI) is an investment management approach designed to help Catholic institutions pursue their missions by seeking to provide sound financial returns while remaining faithful to the teachings of the Church. Specifically, Catholic Responsible Investing includes:

- ▶ Catholic Investment Screening
- ▶ Active Ownership
- ▶ Diversified Asset Management

Investment screening is applied to a portfolio to filter out companies based on moral or social beliefs. Similar to employing screens to implement a particular investment strategy (e.g., deep value investing or momentum investing), CBIS applies screens based on Catholic beliefs.

## Why should a Catholic organization consider investment screening?

Catholic investors care not just about earning competitive returns, but how those returns are achieved — they do not want to benefit from activities that violate their beliefs. CBIS' Catholic investment screens aim to identify those companies involved in activities that fundamentally contradict Catholic moral and social teachings and exclude them from the investment universe, so that Catholic investors do not profit from those products or services.

For the Catholic institutional investor, the decision to buy a security or shares in a fund should involve an evaluation of whether it is appropriate for a Church organization to make money from those activities, in light of both the public stance the Church has taken on an issue and the dictates of personal conscience. In CBIS' view, an effective screening policy takes into account both the teachings of our faith, as well as the legal obligation faced by fiduciaries to prudently invest capital in a diversified and risk-controlled portfolio.

## INVESTMENT SCREENING OVERLAY



## DETERMINING WHAT COMPANIES TO SCREEN

Our basic philosophy is to screen out companies based upon what they do (e.g. manufacture abortifacients), and to use active ownership strategies (resolutions, dialogues, proxy voting) with companies when our concern is with how they are conducting their business. We develop our screening criteria by examining Catholic teachings, USCCB Guidelines on socially responsible investing, and the consensus views of Catholic institutional investors.

To accomplish this, we analyze data from third-party vendors and conduct our own, original research on corporate activities and products. Decisions of whether to exclude a company are based on detailed issue-specific criteria and our 35+ years of experience investing exclusively for Catholic institutions.

Our approach to screening is both research-oriented and dynamic, as companies are constantly adjusting their own strategies, products, and services to meet market challenges, and there is ongoing merger and acquisition activity that reshapes the corporate landscape. We believe Catholic institutions should continually monitor their investments for alignment with the teachings of the Church.

## CBIS' INVESTMENT SCREENS

CBIS' Catholic investment screens address the following four issue categories:

**Life Ethics:** Derived from the principle of Protecting Human Life, this screen focuses on the respect for innocent human life, both born and unborn. Any involvement in these activities triggers an exclusion:

- ▶ Producers of abortifacients;
- ▶ Producers of contraceptive drugs and devices;
- ▶ Health care facilities that perform abortions;
- ▶ Involvement in human embryonic stem cell research, fetal tissue research, or human cloning.

**Violence:** Catholic moral teaching recognizes the legitimate right of self-defense, both for individuals and nations. However,

current levels of weapons production go beyond what is required for defense. CBIS' screen seeks to identify the largest weapons manufacturers using quantitative and qualitative criteria:

- ▶ The amount of revenue a company earns from nuclear weapons;
- ▶ The amount of revenue earned from conventional weapons;
- ▶ The amount of revenue derived from support systems for weapons (i.e. components of weapons that also have other, non-weapons related uses, such as radar systems) and support services;
- ▶ The level of dependence on weapons production, as measured by revenue percentage.

CBIS' violence screen also restricts companies that produce landmines (that can kill indiscriminately) and companies that manufacture firearms and ammunition other than for military or law enforcement purposes.

**Pornography:** The Church condemns pornography as an assault on the dignity of those who produce it and those who consume it. CBIS' screen restricts investments in companies that produce pornographic products or provide pornographic services. Companies that earn 10% or more of their revenue from pornography are excluded. The 10% revenue threshold is used because the available company research does not always make possible a clear distinction between pornography producers and pornography distributors.

**Tobacco:** The Catholic Church does not proscribe the use of tobacco products. However, several Catholic institutions, in particular Catholic healthcare organizations, have a strong preference not to profit from tobacco investments, given the adverse impact of tobacco use on human health. These groups point out that tobacco, used as intended, results in ill health and premature death. The U.S. Centers for Disease Control estimates that globally 5,000,000 people die each year from tobacco use.

## ONGOING MONITORING

CBIS' approach to Catholic Investment Screening is a continuous and ongoing process. Adherence to our screens is carefully monitored as the set of excluded companies changes over time with corporate mergers and acquisitions, restructurings, spin-offs, and changes in corporate strategies and product lines. CBIS will also contact companies directly to verify and ascertain the extent of a violation. Our universe is global: we evaluate companies in developed, emerging, and frontier markets and cover equity and fixed income securities. To verify adherence to our screens, CBIS employs a *three-tier* compliance process:

- 1) Sub-advisers receive an updated restricted company list each quarter and leverage internal systems that monitor purchases and holdings to avoid investing in these securities.
- 2) CBIS' custodian monitors trade activity and will put a hold on any trades in restricted securities — typically these trades can be reversed before they settle.
- 3) CBIS performs a daily audit of portfolio holdings to verify compliance with the restricted company list. This also identifies current holdings that become newly restricted during a quarterly update (perhaps as a result of acquiring another company that was previously restricted).

## MONITORING SCREEN IMPLEMENTATION



## LIMITED IMPACT ON INVESTMENT RETURNS OVER TIME

We have demonstrated that it is possible to avoid investing in companies that provide products and services in fundamental conflict with Catholic beliefs and earn competitive returns. Based on more than 35 years of experience, our Catholic screens have not had a material impact on investment returns over the long-term.

*Screening may cause portfolios to under-perform or over-perform in a given period, but over a complete market cycle, the positive or negative impact has historically been very small.*

—JOHN GEISSINGER  
Chief Investment Officer, CBIS

CBIS monitors and reports the impact of our screens regularly. We perform an annual analysis of the impact of the investment screens on fund performance and discuss the assessment results with our clients and consultants.

## APPLYING A COMPREHENSIVE SCREENING PROCESS

While some view screening as a simple, check the box exercise, we look at it much differently: our multi-level approach can help Catholic organizations feel confident that their investments do not violate the teachings of the Church. To accomplish this, an effective investment screening process combines detailed global research, careful application of beliefs and screening criteria, and continuous portfolio monitoring.

And when combined with CBIS' active ownership efforts, Catholic organizations can seek to pursue their missions in a more holistic manner that can have a positive impact on the lives of many.

We believe CBIS continues to demonstrate that it is possible for Catholic institutions to achieve social and moral returns in harmony with their financial returns.

### Important Information

*This is for informational purposes only and does not constitute an offer to sell any investment. The Funds are not available for sale in all jurisdictions. Where available for sale, an offer will only be made through the prospectus for the Funds, and the Funds may only be sold in compliance with all applicable country and local laws and regulations.*