



# THE STOXX EUROPE CHRISTIAN INDEX BOARD

AN INSIDE LOOK INTO THE COMMITTEE THAT DECIDES HOW EUROPE'S FIRST CHRISTIAN INDEX REMAINS TRUE TO ITS MISSION

STOXX Ltd. launched the STOXX Europe Christian index in 2010 to provide investors with a tool to invest according to their religious beliefs. The index, derived from the STOXX Europe 600, selects companies that comply with the values and teachings of Christianity. Several

Bank) in Vatican City and has been general manager at KLB Fumagalli Soldan Bank in Milan. He has taught courses in ethics and finance at several universities in Italy.

Dr. Louis DeThomasis is the chairman of CBIS Global and previously served as its first president from 2008 to 2013. In 1981, he co-founded CBIS, Inc. and served as its chairman until 1987. Dr. DeThomasis was knighted in 1989 to the Knights of the Holy Sepulchre of Jerusalem and was awarded the Pro Ecclesia et Pontifice medal. In 1986, he completed his post-doctoral studies as a Bush Fellow at the Institute for Educational Management, Harvard University, and earned a PhD in Financial Management from the Union Institute in Ohio.

Another board member – Edward Kirwan – is head of investment management (Charities) at Barclays in London and is responsible for nearly 3 billion pounds of AuM. He joined Barclays in May 2012, after working for 12 years at Coutts & Co. where he managed Coutts' charity investment team. <<

screens exist: for example, a company must not garner more than 33% of its revenue from selling or distributing tobacco or from gambling. If a company derives more than 3% of its revenue from producing or distributing pornography or weapons, it is not eligible.

The ethical complexity involved in this undertaking falls in the hands of an independent seven-member board, which is led by scholars, bankers and other leaders. The board makes its decisions based on the personal opinion of the members and its opinion does not represent the companies or institutions its members work for. An initial screening is conducted by EIRIS, a UK-headquartered, between firm, which provides ESG screening and research. Based on recommendations from EIRIS and other parties, the board decides how to proceed.

At a meeting on Nov. 10, 2014 in Rome, STOXX Pulse caught up with four board members to get a glimpse into their deliberations. Eight companies that were under discussion for inclusion in the index were deemed unacceptable based on the following issues – contraception manufacturing, embryonic stem cell research, gambling, arms production or distribution.

For example, Beiersdorf AG, a German maker of personal and household goods, was not included because a subsidiary of the Hamburg-based firm manufactures contraceptives. IG Group Holding, a British financial services company, was also not included because it garners more than 33% of its revenue from gambling.

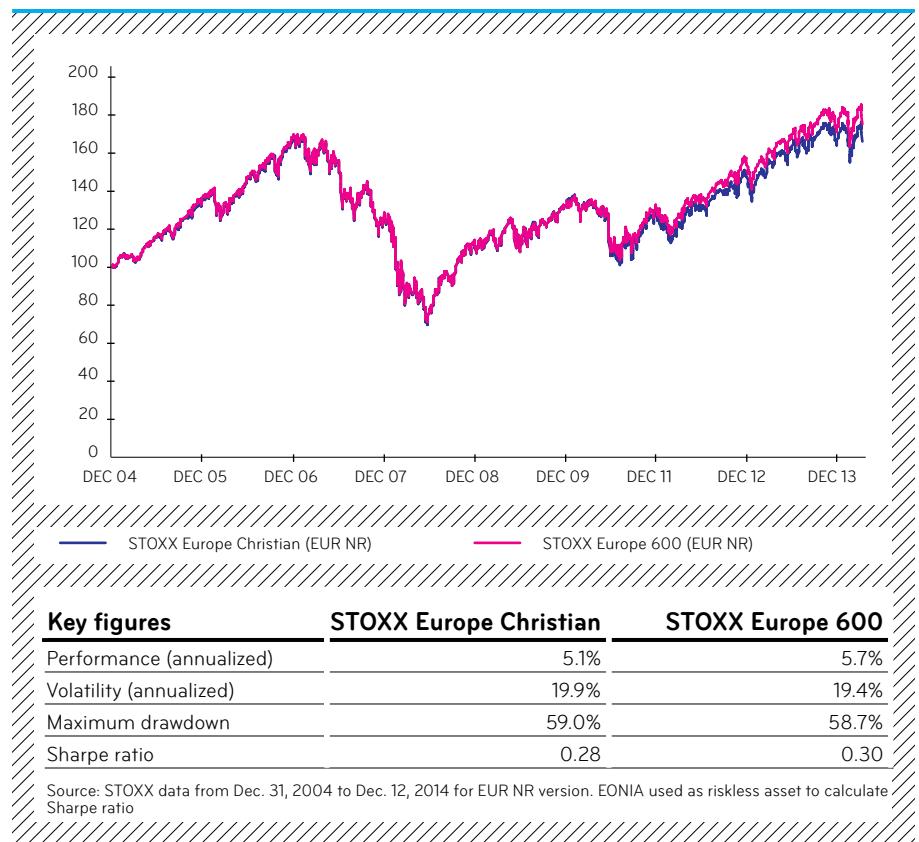
As of Dec. 22, 2014, the STOXX Europe Christian Index had 535 components.

Three of the board members – Francis Coleman, Alessandro Lombardi and Louis DeThomasis – work for Christian Brothers Investment Services. CBIS, Inc. is a global investment management firm that is the leader in Catholic socially responsible investing, with more than 5 billion US dollars of AuM.

Francis G. Coleman is executive vice president at CBIS, Inc. in New York. He oversees socially responsible investing, strategy and information technology and is also a member of the management team and has been with CBIS for 26 years.

Alessandro Lombardi is president of CBIS Global, the European arm of CBIS Inc. and is based in Rome. Lombardi also spent seven years as vice general manager at the Instituto per le Opere di Religione (also known as the Vatican

#### STOXX EUROPE CHRISTIAN INDEX PERFORMANCE NEARLY SIMILAR TO BENCHMARK





FRANCIS COLEMAN

CBIS, Inc.

YOU ARE PART OF CBIS IN THE US? CAN YOU GIVE US SOME COLOR ON THE DIFFERENCES THAT EXIST BETWEEN THE DIFFERENT MEMBERS OF THE BOARD?

What we do as a committee is look at the research we get from EIRIS, counterbalance that with what CBIS in the US knows of the companies, and see if there are any differences. Sometimes, there are differences as a result of terminology, definitional differences, differences in the way the research firm defines the issue, differences in methodology.

For example, in the US, the Church runs bingo. It is prevalent throughout parishes in the US. There is not a moral or theological basis for gambling. In Europe, there is a different perspective on the issue. What the committee is trying to do is get the right mix that is proper for investors in Europe who will be using the index. And that might differ for investors in other jurisdictions who might be doing the same thing.

IN YOUR 26 YEARS, WHAT SHIFTS HAVE YOU SEEN IN TERMS OF CHURCH DOCTRINE AND HOW THAT HAS FLOWED INTO INVESTING?

I'm going to reference my answer to my experience, which is mostly a US experience. Church doctrine does not change that much. I think the Church has been very consistent in terms of what it feels are the areas around which there is moral culpability.

How we implement that has changed significantly. Our ability to do so, the granularity of the data that we get now as compared to 26 years ago helps us tremendously. For example, cross-ownership issues were more difficult to raise 26 years ago because of the data that was available back then.

I don't think Church doctrine has changed much but our ability to dig deeper to understand the relationships between companies has gotten a lot better. It appears that the screens have gotten a lot stronger.

CAN YOU TALK ABOUT HOW THE COMMITTEE ARRIVES AT THE NUMBERS FOR SCREENING – FOR EXAMPLE, NO MORE THAN 3% OF REVENUE FROM PORNOGRAPHY?

The numbers are really meant to suggest a level of participation above which there is a significant concern and below which we do not think there is a material concern.

I do not know whether 3% is an exact science but it is clearly a level we can all agree on. There was some disagreement around 4% and 5%, but around 3% there was none. So it was a judgment that was made that 3% represents a consensus view of the line we should draw in terms of level of participation.



LOUIS DETHOMASIS

CBIS Global

**THE DECISION PROCESS WITHIN THE COMMITTEE SEEMS HARMONIOUS. YOU HAVE EIRIS, THEN YOU HAVE CBIS, WHICH HAS A EUROPEAN PART TO IT AND A US PART. AND THEN ALL OF YOU HAVE TO COMPLY WITH CHURCH DOCTRINE. HOW DOES IT ALL COME TOGETHER?**

What is important to understand is that we, not only I, all of us bring in different dimensions of what goes into making a decision. However, each individual committee member must make his or her own decision that reflects his or her opinion. Why things work so harmoniously even with differing opinions is that we listen to each other.

Another factor to take into account is that we have members with both a US and a European affiliation and that brings in many differences. European religious and church congregations think quite differently about investments than their US counterparts.

The European approach is a little more conservative whereas in the USA it might not be considered that conservative.

Then there is also the whole interesting aspect of the approach to Christianity and Christian values. And that is where there is need for a lot of discussion. Because of the different cultures, Christianity is not immune from cultural biases and differences. Look at what is going on in the Church today. There are tremendous currents of disagreements but overall there is a profound understanding of the Christian core values. And that is what really overcomes all the differences, even when it is difficult to reach a decision.

Lastly I would say that in all of this, we are not performing a mathematical feat in the committee. What we are doing is using prudential judgment and there are, of course, not always going to be one right answer. But you try to do a prudential judgment of what best reflects Christian values.

**TAKING THE EXAMPLE OF BEIERSDORF, IT WAS REMOVED FROM THE INDEX. HOW DO YOU RECONCILE YOUR OWN AND OTHER CHRISTIANS' THOUGHTS AND OPINIONS ON ISSUES SUCH AS CONTRACEPTION WITH THOSE OF CHURCH DOCTRINE?**

Beiersdorf is a great example to show that there is no dubiousness that the official church teachings in the Catholic Church prohibit the use of artificial contraception. That is clear. It is a value. It is a fact from objective

studies that most Catholic families of child-bearing age do not agree with that, and the Church knows this.

So you ask how we make a decision – do we do what the people think or do we do what the Church thinks? Our job is clear, no matter what we think personally we are called in to reflect on what the official church position is. And therefore we do not accept artificial birth control. That is very clear.

**YOU HAVE BEEN A PART OF FAITH-BASED INVESTING SINCE THE EARLY 1980S AND HAVE STUDIED CATHOLIC DOCTRINE FOR DECADES. HOW HAVE CHRISTIAN VALUES CHANGED?**

Not to be funny, but some people think they have not changed at all. The core fundamental principles of doctrine seem not to have changed. The practice, the way people think indeed has changed. And that is a significant cause of tension within the Catholic Church today.

When you look at the 2,000-year history of the Church, there has always been disagreement. We as the STOXX Christian Board have to make a prudential judgment.

You might say I am a Christian capitalist. I believe in the free market system not because it does not have any faults. But so far as of today, it is one of the best systems that could help people. But it needs a lot of corrections, it needs active participation of people who care. We are one of those committees. We care about the dignity of the individual.



ALESSANDRO LOMBARDI

CBIS Global

THERE WAS A LOT OF TALK IN YOUR  
BOARD MEETING ABOUT WHAT YOU DO  
IS PRUDENTIAL JUDGMENT. CAN YOU BE  
MORE SPECIFIC?

Our decision-making turns gray when there is evidence lacking regarding companies. Companies in Europe are very transparent. There may be some that might do something illicit but the vast majority are very transparent.

What is hard to decide is qualitative issues. It is hard to present evidence of corruption until the company is condemned by a judge. For example, we had the issue of France Telecom a few years ago, when many suicides took place at France Telecom. People in France were saying it was because France Telecom overworks its employees, because of work conditions. We thought, should we screen out France Telecom? But we did not have evidence to show people committed suicide because of France Telecom. It was not easy.

DO YOU ALL VOTE UNANIMOUSLY TO DECIDE WHICH FIRMS TO REMOVE AND WHICH TO INCLUDE AT EACH REVIEW OF THE INDEX?

We've always had at least a large majority or unanimous voting to decide whether we remove or include companies in the index. Opinions do differ sometimes but we always reach a harmonious outcome.

For example, in this meeting, there was a good example. CBIS in the US does not consider gambling an issue. In Europe we consider gambling as a negative – those slot machines in bars have destroyed families. So we screen out companies that deal mainly with gambling. In the United States, it is not an issue.

Let me give you another example. If we were in the US, probably tobacco would have a zero tolerance limit. In Europe tobacco has a tolerance limit.

SO WHEN CBIS EUROPE AND CBIS US DISAGREE, HOW DO YOU REACH A CONSENSUS?

I've never really had an argument with our people across the Atlantic. They focus their attention more on certain issues and we focus more on others. There is a different sensibility, but we never have been of a totally different opinion on important issues. Never ever. For example, if you talk about pornography in Brazil, they – the Catholics – will laugh at you. They will say that this is not pornography – what is wrong with a naked body?

So, there are different sensibilities. Again, it is not easy to distinguish clearly. In the end, however, the index needs a list of names. The index does not care about discussion. Even if sometimes it is not white or black, we have to present it as white or black.



EDWARD KIRWAN

Barclays

**YOU MANAGE MONEY FOR BARCLAYS' CHARITIES ARM? WHAT DO YOU THINK OF THE STOXX EUROPE CHRISTIAN INDEX AS AN INVESTMENT INSTRUMENT?**

Certainly in my mind, this index is sustainable as a product and of interest. People like investing according to their conscience, especially younger people. The bigger question is how do you solve the issue of the slight underperformance compared to the benchmark in the short term in the mind of an investor?

We use attribution analysis to examine what the underperformance has been. Principally it is down to two things. One is overexposure to banks – which have suffered – in the Christian Index. Secondly, it is underexposure to healthcare, a sector that has done well.

But I do think that this will reverse over time. Recently I read a study of studies, which showed that in the long-term, investing responsibly as we know does not have a detrimental impact.

**CAN YOU TALK A LITTLE MORE ABOUT THE IMPACT OF EXCLUDING HEALTHCARE COMPANIES IN THE INDEX BECAUSE OF THE NEED TO FOLLOW CHURCH DOCTRINE?**

Healthcare has done quite well this year; there has been a lot of merger activity. Many healthcare companies, particularly the more established players such as GlaxoSmithKline and Astra, have a

very good and conservatively managed stream of business and are good payers of dividends. These companies are quite attractive to charities. In the UK, as a charity, you cannot accumulate income forever. The idea is that charities spend their money on their charitable objective. You generate return on your investment and you spend it.

**CAN YOU GIVE US MORE COLOR ON THE EXCLUSION OF IG GROUP AND THE DEBATE ABOUT WHETHER SPREAD BETTING IS GAMBLING?**

It all boils down to tax interpretation and accounting interpretation. In both instances, it goes to very defined tax laws. A commodity might be classified as something else from a tax perspective.

In the UK, for example, we have a biscuit that is called a Jaffa Cake. Cakes have a lower level of VAT than biscuits. But it is the same shape as a biscuit and looks like a biscuit. However, the maker of this biscuit, to push its case with the taxman, says it is a cake, not a biscuit. As a result, it gets a lower tax rate.

In the board meeting today, the discussion centered around whether spread betting is gambling, speculation, investment. In the UK, charities would very much consider it speculation. Personally, I do not consider it investing. However, the regulator in the UK does not say what investing is and what it is not. It gives you examples of both categories. So, for example, what investing isn't in the UK is buying art, gold bullion, wine. That is considered speculation and charities cannot do that.

Now, what charities could do is buy a gold ETF. You might think it is the same thing but it is structured quite differently. It is very nuanced often.

When we have discussions such as we had today, I have got to accept that there are different opinions, legal interpretations, tax interpretations and, most difficult of all, ethical interpretations.

