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Catholic Responsible Investments

STRATEGICALLY SPEAKING | MAY 2022

Values and Valuation: There's No "C" in "ESG"

THERE'S MORE TO CATHOLIC RESPONSIBLE INVESTING THAN ENVIRONMENTAL, SOCIAL, AND GOVERNANCE SCORING

A half century ago, Milton Friedman posited the idea that the primary responsibility of a business is returning value to shareholders. It's been said that his "Greed is Good" suggestion was responsible for much of the corporate world's subsequent focus on "creating" shareholder value.

But in his work, the great economist spoke to more than a singular commitment to maximizing profits. Indeed, the Friedman Doctrine in full context proposed that a company's highest calling was to not only make money, but to do so, "while conforming to the basic rules of society, both those embodied in law and those embodied in ethical custom."

It's easy to see how society's definition of ethical custom has evolved over the last 50 years. Today, there are companies embracing socially responsible principles as a normal part of business while society as a whole has come to be very concerned with a corporation's various impacts.

A PUSH IN PRODUCT

As part of this evolution, Wall Street product manufacturers have responded with an abundance of so-called "ethical" investments, including socially responsible investing (SRI) funds and environment, social, and governance (ESG) strategies.

Based on the increasing demand for sustainable investing funds and ETFs, reports indicate that ESG assets alone may account for a third of global AUM by 2025.[1]

As professional investors, we believe the growth in responsible investments is mostly a good thing. As a Catholic money manager, however, we can say that those looking to align their investments with Church values will not get there through an ESG fund. Here's why.

VALUATION VERSUS VALUES

Beyond Friedman's notion of maximizing return on investment to benefit shareholders, the ESG framework also evaluates companies based on environmental, social, and governance metrics. The typical process ranks companies based on an assessment of certain non-financial risks and assigns each business an ESG score. The ESG fund manager then employs this "valuation" in his or her buying and selling decisions. ESG practices may also entail screening out companies or sectors that have shown poor performance with regard to management of ESG risks and opportunities.

No one will argue that ESG issues can pose serious risks to a company's operations and profits. Or that companies actively working to address these risks should see fewer business disruptions and potentially produce more reliable financial results over time.

We might even suggest that good fundamental analysts have always incorporated most of these factors into their investment decision-making.

In the end, though, any alignment between the ESG process and an investor's values is coincidental.

Catholic Responsible Investing (CRI), on the other hand, is based on values. The strategy combines a high-conviction investment process with a comprehensive approach to screening and active engagement with portfolio companies. Investors may earn competitive financial returns while confidently remaining in alignment with the teachings of the Catholic Church.

In practice, CRI includes 1) Screening to help Catholic investors avoid exposure to company activities that violate Church teachings and 2) Active Ownership to work on behalf of investors towards transforming portfolio companies' policies and practices to build strong communities and protect the environment. We will also work with select companies we view as having potential for improvement.

There is an intentionality around CRI that simply does not exist in ESG.

Bottom Line

While there's bound to be overlap among ESG and CRI strategies, there are significant and important differences in their outcomes. We believe, for devoted Catholics looking to incorporate their faith into their investments, the CRI approach is positioned to meet their financial needs in a uniquely Catholic way.

Important Information

All material of opinion reflects the judgement of Adviser at this time and are subject to change. This material is not intended as an offer or solicitation to buy, hold or sell any financial instrument or investment advisory services.

Catholic Responsible Investment ("CRI") is an investment strategy designed specifically to help investors seek sound financial returns while remaining faithful to the teaching of the Roman Catholic Church. The Fund considers the Adviser's CRI criteria in its investment process and may choose not to purchase, or may sell, including at inopportune times which would result in losses to the Fund, otherwise profitable investment in companies which have been identified as being in conflict with the Adviser's CRI criteria. Funds may underperform other similar funds that do not consider CRI guidelines when making decision.

1Bloomberg

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