

Impact and Justice in 2017

MARCH 2017

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Active Ownership remains at the core of CBIS' mission and continues to underscore our commitment to fiscal and social responsibility, and to the religious traditions of our owners and the Catholic institutions we serve. In 2016, Julie Tanner took over our CRI department and expanded the team while enhancing its approach to engagement. We now have a four-person team dedicated to screening and shareholder advocacy. It reports to an EVP with extensive SRI industry experience worldwide. We focus our engagement activities on three key pillars of Catholic ethical and social teaching—economic justice, environmental stewardship, and human dignity. In 2017, CBIS plans a wide range of corporate engagements, including six new companies, across six countries globally.

2017 NEW ENGAGEMENTS

Distribution of Pornography and Child Sexual Exploitation (Human Dignity)

The internet and devices that enable internet access (smart phones, computers and tablets, for instance) have transformed pornography into an on-demand industry. With the explosion of online pornography comes a public health crisis of addiction that is hotly debated and increasingly researched by health professionals. Porn proliferation is also often connected to the rising numbers of children forced into commercial sex acts for profit online, from trafficking and sex slavery, to illegal images and live video. Tech and telecom companies serve as a key intersection in this debate—they enable porn's expanding proliferation and provide new tools to find, sell, and advertise child victims.

The Catholic Church teaches us that every individual is bestowed with the dignity of our creator. Pornography is dehumanizing, and its production takes advantage of some of the most vulnerable among us, including those desperate for money and victims of sex trafficking. The Church encourages us to recognize the potentially harmful nature of pornography and to protect the dignity of those victimized by the industry.¹ CBIS seeks to better understand and engage with companies on how



ACTIVE OWNERSHIP AND CATHOLIC RESPONSIBLE INVESTINGSM

Active Ownership is a critical element in CBIS' Catholic Responsible InvestingSM (CRI) approach, aimed at helping improve the strategies, policies, and practices of corporations in our portfolios. This may involve helping them avoid business, ESG and reputational risks, among others. CBIS' active ownership program is shaped by Catholic teaching and leverages a variety of tools:

- **Shareholder Resolutions** — CBIS files shareholder resolutions to demonstrate support and to address Catholic teaching.
- **Corporate Dialogues** — CBIS meets with Fund portfolio companies to encourage them to improve policies and practices that affect employees, customers, and communities.
- **Proxy Voting** — CBIS votes more than 3,000 proxy ballots each year, throughout the world, based on Catholic beliefs.

¹United Conference of Catholic Bishops. "Create in Me a Clean Heart: A Pastoral Response to Pornography." <http://www.usccb.org/issues-and-action/human-life-and-dignity/pornography/upload/Create-in-Me-a-Clean-Heart-Statement-on-Pornography.pdf>. Accessed 2 Mar 2017.

pornography is a tool to groom and abuse children for sexual exploitation, and the many ways that IT devices, storage, and software facilitate this abuse of children while often protecting perpetrators.

Focus Companies: *Apple, AT&T, Sprint, T-Mobile, Verizon.* These companies produce or sell the devices, the data plans, and access to software, apps, and cloud storage that can potentially hinder or help the problem. By ignoring the ubiquity of pornography, including its many illegal forms, these firms risk publicity issues, damaging law suits, and the loss of consumer confidence. More importantly, the lives and dignity of children are at stake.

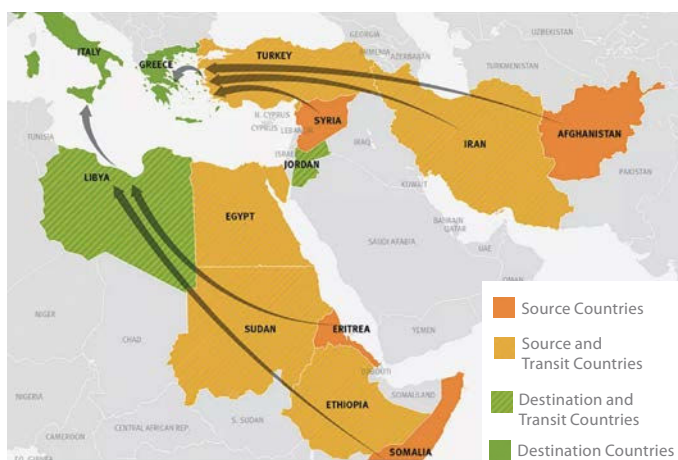
Goals: We will ask these companies to take action and report on the following:

- ▶ Block content of illegal images, especially those involving children/minors;
- ▶ Strengthen parental controls well beyond current norms;
- ▶ Report abuses to authorities or third parties to enable prosecution of perpetrators;
- ▶ Develop new software and technologies to find and assist victims and keep track of abusive trends through metadata analysis;
- ▶ Better educate web users on what abuse looks like and how to stop it; and
- ▶ Partner with key advocates in the fight to end online child exploitation.

Responsible Banking for Refugees (Economic Justice)

Today, war, conflict, and persecution have led to nearly 21 million refugees around the world who have been forced to flee their homes. Over the past two years, 1.5 million refugees have arrived in Germany alone, mainly from Syria, Afghanistan, and Iraq.² Many are upper middle-class and well-educated, with skills and experience to contribute to the local economy.³ To participate productively in society, having a bank account is often vital; without access to funds, refugees may go into debt or be forced into homelessness. Research by The World Bank has shown that a key driver to alleviate poverty is found in offering accessible, effective, and affordable financial products and services.⁴ However, due to a rapid increase in arrivals and a sluggish response from the financial community, many refugees in Germany continue to lack banking products and services. When Germany's financial watchdog agency issued a call to action to help address the issue, over 400 savings banks complied, opening more than 250,000 accounts for refugees. Germany's international banks were slow to respond, despite having branches in major cities and suitable products and services.

REFUGEES' DANGEROUS ROUTES TO EUROPE.



Source: Human Rights Watch

Sample Migration Routes Based on Human Rights Watch Interviews

¹United Conference of Catholic Bishops. "Create in Me a Clean Heart: A Pastoral Response to Pornography." <http://www.usccb.org/issues-and-action/human-life-and-dignity/pornography/upload/Create-in-Me-a-Clean-Heart-Statement-on-Pornography.pdf>, Accessed 2 Mar 2017.

²United Nations High Commissioner for Refugees (UNHCR) "Global Trends Report 2015" and "Global Trends Report 2014." <http://www.unhcr.org/en-us/figures-at-a-glance.html>, Accessed 2 Mar 2017.

³McHugh, Jess. "Europe Refugee Crisis Facts: Wealthy, Educated Syrians Risking Lives To Leave War." *International Business Times*, 9 Sept 2015: <http://www.ibtimes.com/europe-refugee-crisis-facts-wealthy-educated-syrians-risking-lives-leave-war-208901>, Accessed 2 Mar 2017.

⁴The World Bank "Financial Inclusion Overview." <http://www.worldbank.org/en/topic/financialinclusion/overview>, Accessed 2 Mar 2017.

The Church has taken a strong stance on our duty as Catholics to welcome and serve the refugee community. Pope John Paul II called on Catholics to build an “atmosphere of welcoming,” particularly with regard to the “problem of millions of refugees and exiles...whose only “fault” is a search for work and better living conditions outside his own country.”⁵ The Church also calls for financial access for underserved populations. As Pope Emeritus Benedict XVI wrote in *Caritas in Veritate*: “... the regulation of the financial sector, so as to safeguard weaker parties and discourage scandalous speculation ... should be further explored and encouraged... This is all the more necessary in these days when financial difficulties can become severe for many of the more vulnerable sectors of the population ... (65).

Focus company: *Deutsche Bank*. As Germany’s largest bank, and a global leader with a strong position in Europe, Deutsche Bank has an opportunity to use its leadership position to aid and support refugees in need of financial services. Currently, most of the bank’s efforts appear to concentrate on donations and volunteer efforts by employees.

Goals: CBIS will lead an engagement to address unmet needs and will ask Deutsche Bank to implement and report on the following:

- ▶ Hire multilingual employees;
- ▶ Train staff on account opening requirements;
- ▶ Streamline the account process; and
- ▶ Create technology that allows refugees with no banking relationship to more easily access funds.

Reducing Food Waste and Feeding the Hungry (Economic Justice)

Addressing hunger is at the heart of the Church’s mission. While over 800 million people worldwide are undernourished,⁶ one-third of all food produced for human consumption, or nearly one billion tons of food each year, is lost or wasted

due to inefficient practices at the corporate, agricultural production, and consumer level.⁷ According to the UN’s Food and Agriculture Organization (FAO), food waste costs the economy roughly \$940 billion a year.

Catholic Relief Services has long focused on improving food systems to reduce hunger and food loss, and Pope Francis drew attention to the issue in early 2015 when he called Catholics to action to address food waste and hunger. Both Pope Francis’ *Laudato Si’* and Pope Benedict’s *Caritas in Veritate* remind Catholics of the Church’s ongoing commitment to tackle food waste and hunger.

Focus company: *Papa John’s International*. Papa John’s does not currently acknowledge that food waste is a problem within the company, and as such it lacks initiatives, basic sustainability reporting, and management processes around the issue. Restaurant chains such as Papa John’s currently lag grocery retailers and some food growers in tackling food waste. Papa John’s has an opportunity to save money, implement tighter controls, and build a positive brand perception, along with steering needed food to food banks.

Goals: We will lead an engagement with Papa John’s to convince the company to acknowledge the problem and



⁵ John Paul II, *Welcoming the Poor: Reigniting Hope, Origins* 27:36 (February 26, 1998): p. 605.

⁶ Catholic Relief Services “Hunger,” <http://www.crs.org/get-involved/learn/hunger>, Accessed 2 Mar 2017.

⁷ Food and Agricultural Organization of the United Nations “Food Loss and Waste,” <http://www.fao.org/food-loss-and-food-waste/en/>, Accessed 2 Mar 2017.

leverage its size, brand positioning, social media presence, structure around 10 key supply centers, and franchisee co-op model to implement and report on:

- ▶ Systems to measure food waste and identify where it comes from;
- ▶ Operational practices to reduce waste and Co-operation across restaurants and internal departments to tackle the amount of waste generated – through food donations, waste reduction programs, re-purposing of ingredients, and other means.



Worker Rights, Safety and Dignity in the Poultry Industry (Economic Justice)

Chicken is now the most popular meat consumed in America, and the poultry industry has been booming for years. However, improvements on processing lines have not kept pace with industry growth. Poultry workers typically earn low wages, receive no paid time off, experience high turnover rates, and work in remarkably challenging conditions, including working in extreme cold to reduce microbial growth and on slippery floors that don't have sufficient drainage. Oxfam and the U.S. Occupational Health and Safety Administration (OSHA) have reported on issues from the inability of poultry workers to take restroom breaks during their shifts, to high rates of repetitive motion injuries that can be so severe workers may lose feeling in their hands and wrists, or become permanently disabled. Because of these conditions, processing plants often employ

economically vulnerable populations - minorities, immigrants, and even prisoners - who are afraid to speak up about the conditions and risk their employment. Despite these findings, processing line speeds continue to increase to meet demand and grow revenue, and major players in the industry have not set standards to protect the health and safety of workers. Industry leaders have denied such allegations, and maintained that company policy is to allow for bathroom breaks, the ability to see an onsite medical professional when injured, and workers being encouraged to report unsafe conditions. But CBIS interviews with nonprofits and union leaders who engage with these workers say the allegations are quite consistent and widespread across many plants and states where workers have been interviewed in isolation from other workers.

The Church is clear about our moral and ethical obligations to workers. From *Rerum Novarum* in 1891 to Pope John Paul II's *Laborem Exercens*, Church leaders regularly remind us of our duty to advocate for workers and the right of all people to secure dignified work, to take care of their families, secure basic necessities for living, and to contribute to the common good. Practices that harm worker dignity in favor of profits – disregarding the most basic workplace rights, including safe and human working conditions – cannot be ethically justified.⁸

Focus company: *Sanderson Farms*. As one of the top chicken processors in the industry, Sanderson Farms should implement changes that could improve conditions for poultry workers across the nation. As consumers become educated about their food sources, the treatment of employees can be a serious risk to the company, impacting its brand and core revenue drivers.

Goals: To improve working conditions, we will ask Sanderson Farms to:

- ▶ Introduce public reporting on worker safety improvements, workforce make-up, lost-time incident rates, and workforce satisfaction;
- ▶ Implement employee cross-training to alleviate repetitive motion risks in the line; and
- ▶ Hire floating workers to allow for adequate rest breaks for employees.

⁸ John Paul II, *Centesimus Annus* (May 1, 1991): #43.

Water Stewardship in Our Food Systems (Environmental Stewardship)

Agriculture and food production are by far the greatest consumers of water of any industrialized activity. Food production and processing operations that consume large volumes of water tend to coalesce in or around rural



communities across the globe – often in areas where access to water may already be limited, threatening water supplies. For example, some of the largest meat producers are in regions that are already experiencing drought and water stress from population, such as China and Brazil.

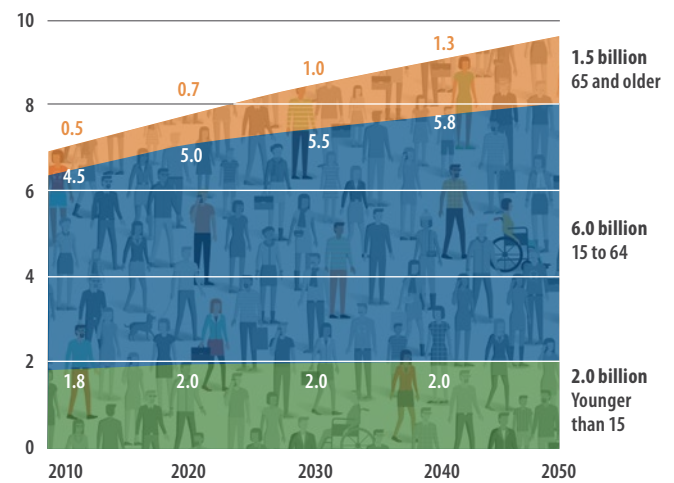
Recent research has shown that about 27% of humanity’s water footprint is related to the production of animal products.⁹ With our population estimated to reach 9.6 billion by 2050, the production and consumption of animal products is expected to increase by 70% in this period, which will further impact water systems,¹⁰ potentially putting access to sufficient clean water out of reach for communities and exposing companies to severe, long-term operating risks.

Catholic ethical and social teaching leads our urgency to account for the impacts our activities have on the poor. The United States Conference of Catholic Bishops (USCCB) states that “in most countries today, including our own, it is the poor and the powerless who most directly bear the burden of

current environmental carelessness.”¹¹ The Church calls us to examine how we use and share the goods of the earth — we have a collective responsibility to ensure water resources are sufficient for all those that depend on its water supply.

Focus companies: *WH Group, JBS SA, Conagra Brands.* WH Group, based in China, is the largest pork company in the world and owner of Smithfield Foods, the largest U.S.-based pork producer. Brazil-based JBS SA is a leading processor of beef, pork and lamb in the U.S. and the largest cattle feeder in the world. Conagra Brands is one of the largest U.S.-based packaged food companies. These companies can play a critical role in long-term water stewardship, helping to ensure the health of our common home and the human right to water for local communities.

PROJECTED GLOBAL POPULATION GROWTH



Source: Pew Research

Goals: We will lead an engagement to ask these companies to adopt and report on comprehensive water stewardship policies, including:

- ▶ Assessing water risk;
- ▶ Outlining actions and policies for assessing and managing water risks and impacts;

⁹ A Global Assessment of the Water Footprint of Farm Animal Products, Mesfin M. Mekonnen and Arjen Y. Hoekstra, Department of Water Engineering and Management, University of Twente, 2012

¹⁰ Food and Agricultural Organization of the United Nations, “2050: A third more mouths to feed.” 23 Sept 2009. <http://www.fao.org/news/story/en/item/35571/icode/>. Accessed 2 Mar 2017.

¹¹ United States Conference of Catholic Bishops, “An Invitation to Reflection and Action on Environment in Light of Catholic Social Teaching: A Pastoral Statement of the United States Catholic Conference.” 14 Nov 1991. <http://www.usccb.org/issues-and-action/human-life-and-dignity/environment/renewing-the-earth.cfm>. Accessed 2 Mar 2017.

- ▶ Disclosing quantified targets for reducing wastewater and water use; and
- ▶ Providing comprehensive data on their suppliers' water performance.

Life Ethics and Corporate Contributions Initiative (Human Dignity)

CBIS developed its Life Ethics screen to ensure participants do not invest in companies that violate their core beliefs. The right to life is at the center of the ethical teachings of the Church, and year after year, it is a primary concern of CBIS' participants with regard to Catholic Responsible Investing. Because of this, transparency is critical for companies that, through their corporate giving programs, may be supporting activity that violates Catholic teaching, even if their direct business activities do not. Reporting on corporate giving is often lacking or inconsistent, if it is disclosed at all, which prevents investors who are opposed to such contributions from having a clear understanding of corporate policies and practices.



To augment our Life Ethics screening with active ownership, CBIS will be launching a letter-writing campaign to clarify the giving programs of companies that may have contributed to Planned Parenthood in the past three years, either financially or with in-kind donations of products, services, or event sponsorships.

Goals: To increase transparency around company or corporate foundation-directed giving, we are requesting that these companies we have identified who may have given to Planned Parenthood:

- ▶ Clarify how they contributed to Planned Parenthood, the amount they donated, and for what purposes; and
- ▶ Disclose such giving to shareholders when it is directed by the company or its foundation or trust.

FIXED INCOME INITIATIVE

We will conduct new fixed income-related engagements in 2017 through our work in the UN Principles for Responsible Investment's (PRI) Corporate Bondholder Working Group. CBIS joined the group, which includes 11 other members from the global investment industry, to help develop a best practices guide to fixed income engagement. We plan to begin engaging through our debt holdings, as well as through our equity holdings. We will also continue to raise the importance of disclosing ESG risks and opportunities in debt offerings to financial regulators when opportunities arise.

Engaging with companies offering debt securities in our portfolios is increasingly important because:

- ▶ Debt holders are also affected by environmental, social and governance risks: creditworthiness of corporate debt is affected by corruption, business model disruption, license to operate, brand risk, public policy and consumer demand risk, and physical impacts of issues such as climate change on assets funded by debt.
- ▶ Debt holders have different rights than equity holders and are often subordinate in those rights. Engagement is a way for creditors to have their concerns heard, and their questions addressed that impact the creditworthiness of those holdings.

- ▶ Debt holders often use different channels to engage with management than equity holders, including attending bondholder meetings, engaging with company boards and credit rating agencies on emerging issues of concern, and potentially creating proxy voting guidelines for bondholder meetings that address sustainability and governance issues.
- ▶ Sovereign debt can be heavily impacted by environmental or social issues. Corruption and money laundering, natural resource exploitation, climate change impacts, and social unrest are all factors that play a significant role in the stability or lack of it in countries offering sovereign debt.



2017 SHAREHOLDER RESOLUTIONS

ExxonMobil

Filed by: CBIS, The New York State Common Retirement Fund, the Church of England Endowment Fund, and a coalition we helped to mobilize of an additional 50 filers representing roughly \$4.5 trillion in assets.

Resolution: Publish an annual assessment of oil and gas reserves' impacts under a two-degree Celsius or less business environment (stipulated by the Paris Agreement).

Background: CBIS focused on galvanizing religious filers to join ICCR's working group and collectively support this resolution that is expected to be voted on in May 2017. The proposal is consistent with requests for enhanced climate change disclosure that CBIS requested of BP and Royal Dutch Shell in 2015. Our goal for 2017 is to convince ExxonMobil's board and new CEO to move forward with more detailed reporting of how climate change will impact demand for the company's core products and move beyond business-as-usual scenarios often reported in its annual *Energy Outlook*.

ADDITIONAL 2017 HIGHLIGHTS

Oil and Gas Companies' Energy Transition Progress Tied to Executive Compensation

Climate Change (Environmental Stewardship)

We are building on our climate work with BP and Royal Dutch Shell, focusing on executive compensation plans that incentivize the transition to a lower carbon economy and implementation of the Paris Agreement. We will continue to draw from Laudato Si' and connect climate change to impacts on the world's poorest, and to Creation, in our work. BP and Shell both face binding votes on executive pay packages in 2017, and we are partnering with EU investors to link compensation incentives and energy transitions in a more pronounced way this year. CBIS is hosting an investor teleconference with the head of BP's Remuneration (Compensation) and SEEAC (Environment and Safety) Board Committees during the first quarter to receive an update on this issue from key directors themselves.

Pharmaceutical Innovation

Access to Health and Nutrition (Economic Justice)

We are taking a leadership role in tackling and better defining pharmaceutical innovation that is tied to improved health outcomes, under our Access to Health and Nutrition work, by convening a working group of faith-based investors to encourage the development of improved, lower-cost, life-saving medicines and to draft research in 2017 highlighting the need for better defining what pharmaceutical "innovation" means, over companies merely recycling patents for continued shareholder returns and pipeline growth.

BUILDING ON EXISTING ENGAGEMENTS

We take a long-term view on our active ownership, and in many instances, we work with companies for a decade or more to establish strong working relationships and drive real change. In addition to our new work, CBIS will continue our active ownership initiatives with a variety of existing companies across the globe in 2017. These are in addition to the short-term engagements (single meetings, calls or letters) we are often involved in that are necessary follow-ups to previous engagements or issue areas we have worked on in the past.

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.